THE

Indian Taxation Enquiry Committee

Volume IV

EVIDENCE

LAHORE, NAGPUR AND LUCKNOW



CALCUTTA · GOVERNMENT OF INDIA
CENTRAL PUBLICATION BRANCH
1925

Government of India Publications are obtainable from the Government of India Central Publication Branch, 8, Hastings Street, Calcutta, and from the following Agents :

EUROPE.

OFFICE OF THE HIGH COMMISSIONER FOR INDIA,
42, GROSVENOR GARDENS, LONDON, S.W. 1.

And at all Booksellers.

INDIA AND CEYLON.

Provincial Book Depôts :

MADRAS :—Office of the Superintendent, Government Press, Mount Road, Madras.
BOMBAY :—Office of the Superintendent of Government Printing and Stationery, Poona.
SIND :—Library attached to the Office of the Commissioner in Sind, Karachi.
BENGAL :—Office of the Bengal Secretariat Book Depôt, Writers' Buildings, Room No. 1, Ground Floor, Calcutta.
UNITED PROVINCES OF AGRA AND OUDH :—Office of the Superintendent of Government Press, United Provinces of Agra and Oudh, Allahabad.
PUNJAB :—Office of the Superintendent, Government Printing, Punjab, Lahore.
BURMA :—Office of the Superintendent, Government Printing, Burma, Rangoon.
CENTRAL PROVINCES AND BERAR :—Office of the Central Provinces Secretariat, Nagpur.
ASSAM :—Office of the Superintendent, Assam Secretariat Press.
BIHAR AND ORISSA :—Office of the Superintendent, Government Printing, Bihar and Orissa, P. O. Gulzarbagh, Patna.
COORG :—Office of the Chief Commissioner of Coorg, Bangalore.
NORTH WEST FRONTIER PROVINCE :—Office of the Manager, Government Printing and Stationery Peshawar.

Thacker, Spink & Co., Calcutta and Simla.
W. Newman & Co., Ltd., Calcutta.
R. Cambray & Co., Calcutta.
S. K. Lahiri & Co., Calcutta.
The Indian School Supply Depôt, 309, Bow Bazar Street, Calcutta, and 226, Nawabpur, Dacca.
Butterworth & Co. (India), Ltd., Calcutta.
[illegible]
The Book Company, Calcutta.
Higginbothams & Co., Madras.
V. Kalyanarama Iyer & Co., Madras.
P. R. Rama Iyer & Co., Madras.
Rochouse and Sons, Madras.
Bright & Co., Trivandrum.
V. S. Swaminathan, Bookseller, West Tower Street, Madura.
Thacker & Co., Ltd., Bombay.
D. B. Taraporevala, Sons & Co., Bombay.
Sunder Pandurang, Bombay.
Ram Chandra Govind & Sons, Kalbadevi, Bombay.
N. M. Tripathi & Co., Booksellers, Princess [illegible]
Karsandas Narandas & Sons, Surat.
Mangaldas & Sons, Booksellers and Publishers, Bhaga Talao, Surat.
A. H. Wheeler & Co., Allahabad, Calcutta and Bombay.
N. B. Mathur, Supdt., Nazir Kanun Hind Press, Allahabad.
[illegible]
Times of Ceylon Co., Ltd.
The Manager, Ceylon Observer, Colombo.
The Manager, The Indian Book Shop, Benares City.
B. C. Basak, Esq., Proprietor, Albert Library, Dacca.
The Srivilliputtur Co-operative Trading Union, Ltd., Srivilliputtur (Satur S. I. R.).
Banwari Lal, Esq., Pakariya Street, Pilibhit, United Provinces.
The Standard Book Depôt, Lahore, Lucknow, Nainital, Mussoorie, Dalhousie and Ambala Cantonment.

CONTENTS.

PAGE.

LAHORE.

NAGPUR

LUCKNOW

24th January 1925.

Lahore.

(a) In the Punjab the ratio of water rates to crop value varies at present between 1/11 and 1/20 according to crop. In America the ratio is 1/5 to 1/6 and in Egypt 1/7.

Private canal owners in the Shahpur district of the Punjab take 1/4, although the canals are ill regulated inundation canals, and the supply precarious.

Unless it can be shown that the rates charged in America and Egypt are grossly excessive, which there is no reason to suppose to be the case, it is clear that the Punjab rates are pitched much too low and do not yield to Government a fair share of the profits made from irrigated lands

(b) It has been calculated that an acre of canal irrigated wheat yields Rs 10 more profit to the cultivator than an acre of well irrigated wheat. It cannot be contended that well irrigation in reasonably favourable conditions does not pay the cultivator; if so, it is clear that Government is not getting a fair share of the profits on canal irrigated lands with the present rates.

(c) Cases are on record where cultivators have expressed willingness to pay rates greatly in excess of those charged for canal water, in order to get tube well irrigation.

This again shows that the commercial value of canal water is not secured by Government

(d) When cultivators obtain extra water by illegal means such as cutting distributary banks, or interfering with outlets, their crops can be assessed at double the usual rate. Experience shows that this penalty is not deterrent to obtaining illegal supplies of water and is a measure of the value attached to canal irrigation

It is very difficult to say definitely whether present charges are adequate or not, assuming that these charges should be pitched so as to give a commercial return to Government, because a "commercial return" has not been defined

It is calculated that the net receipts from present water rates (gross receipts less working expenses) will yield a return of 10 2 per cent on the capital invested on the productive works in the province.

If unproductive works, some of which are working at a loss, were included, the net return would be smaller Interest on capital has to be paid from these net receipts and the balance is all that is left as a return to Government

In view of the fact that no part of the receipts is put aside for depreciation or as a reserve for renewals and for the financing of unremunerative schemes which Government may decide to take up in the future, it is clear that the net receipts do not amount to a commercial return. It is clear from question No 13 that a bare return on the capital invested is not held to be a commercial return. No private firm would dream of distributing as dividends the small margin of profit remaining after interest is paid from the 10 2 per cent yielded by present water rates; such a firm would place the margin to reserve and would require a higher return in order to make the undertaking really profitable. Judged in this way it can safely be said that existing water rates are inadequate.

The remarks above on question No. 13 and first part of question No. 15, if accepted, point to the conclusion that " (2) to charge a fair commercial profit " is the best plan. If so, (1) does not arise

(3) If irrigation is to be carried on as a commercial undertaking, as it should be, it would be quite wrong to lump together land revenue and water rates. Water rates are charged in return for the supply of a commodity, namely water, and it ought to be possible to judge from the returns from water rates alone, whether an irrigation scheme is paying or not. To merge water rates and land revenue would make it almost impossible to form any just estimate of the soundness of an irrigation scheme or the adequacy of the portion of the land revenue considered to be the charge for water. After all, land revenue is a tax pure and simple, while water rates are a charge for a commodity supplied. A tax should not be mixed up with a commercial charge for a commodity supplied.

(4) Paragraph (ii) 2 of Irrigation Branch letter No. 0166-R I., dated 10th July 1924 (copy attached), explains the difficulties in introducing a general system of charging for water by volume.

The principal argument advanced in favour of the volumetric system of charging for water is that it will enable Government to dispense with the greater part of the revenue staff now employed in measuring and recording the areas

irrigated, which would result in economy and free the cultivators from harassment by that staff, which they now complain of, justly or unjustly.

This argument is unsound If volumetric supplies were universal it would not result in so great a reduction in staff as is imagined, because the staff of gauge readers would have to be greatly increased

Apart from this, however, it would still be necessary to maintain an accurate record of areas irrigated

Under the present system cultivators get as nearly as possible a fixed supply of water calculated to suffice for the irrigation of a fixed proportion of their holding of land If it is seen that the area irrigated on a particular outlet is continuously and greatly in excess of the fixed permissible area, attention is at once directed to the outlet which may be found for one reason or another to be discharging more than it was designed to do In the absence of records of areas irrigated, outlets discharging excessive supplies would not be readily discovered and remedied No doubt this difficulty will tend to disappear as accurate modular outlets come into use universally. But there is another point It has been found possible during the last 20 years, as economy in the use of water has progressed, to gradually reduce supplies and so obtain water for extension of irrigation. This is specially the case on new canals as they develop The absence of detailed records of areas of irrigation would make it very difficult for Government to take advantage of economy in the use of water by extending the blessings of irrigation It should be remembered in this connection that the supply in four out of the five rivers of the Punjab is completely withdrawn for irrigation in winter, and in the case of the fifth river the same condition will soon obtain. Clearly then, extensions of irrigation will only be possible by using the available water more economically

Another point against volumetric supplies is that under the present system the more the water is spread out the more does Government share in the resulting prosperity This would not be the case if water were charged for by volume

(5) It may be said briefly in reply to this proposal that the Punjab village communities are not sufficiently well organised at present to make such a system a success The most probable result would be that the well-to-do would get the bulk of the water supply and the badly-off would get a meagre and insufficient supply at irregular intervals which would not suit their crop

*Q 15 (*Supplementary*) —Water rates are not fixed for the terms of settlements and it would not be practicable to do so Each canal serves two or more districts which have varying terms of settlements commencing at different dates.

If rates were fixed for terms of settlements, the rates would vary on different parts of the same canal system and even on different parts of individual channels This would not only be inequitable but would connect water rates with land revenue in a manner inconsistent with the view that water rates are charged for the supply of a commodity supplied on commercial lines.

Water rates are liable to variation at any time by order of the Government. In practice alterations, except in very minor details, take place very rarely

The Punjab Government have no information regarding the proposal of the United Provinces Irrigation Rates Committee referred to The proposal does not seem to be a suitable one Variations in rates every five years would not be acceptable to cultivators Further, as water rates in the Punjab are considered to be inadequate in so far as they do not give a commercial return to Government, it follows that there would never, so long as rates are as low as they now are, be any occasion to reduce them because of a drop in prices A marked rise in prices would be a good reason for increasing rates on the general principle that Government is entitled to a share in the produce resulting from the application of canal water to land and could only get this share by increasing water rates.

Q 16 —If Government is entitled to impose the tax known as land revenue, which is based, in effect, on the value of the land, Government is certainly entitled to take its share of any increase in value which may result from the introduction of a supply of water.

The proportion of the increase which should be taken and the method of taking it are matters for land revenue experts.

Q 16 (*Supplementary*) —Chief Engineer has no information as to the details of this proposal, and he understands it has not got past the stage of a suggestion.

* The reference is to a Supplementary Questionnaire sent to the Punjab Government

Copy of a letter No. 0166-R.I., dated Simla, the 10th July 1924, from the Chief Engineer, Irrigation Works, Punjab, to the Secretary to Government, Punjab, Finance Department.

COMMITTEE OF INQUIRY INTO INDIAN TAXATION.

With reference to your letter No 15839-B., dated the 14th June 1924, I have the honour to state that the only points concerning this Department in the annexure to Government of India, Finance Department, letter No. 1299-F., dated 20th May 1924, received with your letter under reference are those dealing with water rates as specified on page 6 in paragraph 2.

(i) *Principles on which water rate is levied.*

The principles on which water rates are levied have never been clearly defined. The Northern India Canal and Drainage Act (Act No. VIII of 1873) on the authority of which water rates or occupier's rates are levied does not lay down any principles on which to determine the pitch thereof. The principles which have guided Government in levying water rates are :—

(*a*) That the rates levied should be sufficient to repay the interest on the capital expenditure incurred in constructing irrigation works and the cost of maintaining those works.

(*b*) That Government as the owner of the water is also entitled to a share of the increased production of the land due to the application of water to it.

It might and has been argued that Government is entitled to take in the shape of water rates the total difference between the value of the produce of irrigated and unirrigated land. There are, however, many other considerations which have weighed with Government in determining the pitch of water rates and no attempt to take the total difference in value referred to above has ever been made. Revenue credited to the canal system from irrigated lands is assessed partly as water rates (occupier's rates), and partly as enhanced land revenue (the difference between wet and dry rates fixed at settlement) on account of the fact that the land receives the advantage of irrigation. The total amount so assessed falls far short of the value of the increased productiveness of land due to irrigation.

The water rates or occupier's rates abovementioned are levied separately in the Punjab and credited as direct receipts to the canal system. They are not consolidated with the land revenue assessment. The occupier's rate varies with the kind of crop irrigated, because some crops use much more water than others, and because some return a much larger margin of profit to the cultivator than others.

(ii) *Volumetric Assessment.*

The system of volumetric assessment has been introduced in the Punjab in the case of five estates on the Lower Bari Doab Canal and two estates on the Lower Chenab Canal.

In the case of the Lower Bari Doab Canal one of the five estates has reverted to acreage assessment, while the volumetric system is still in force on the other four. On the Lower Chenab Canal the system has been abandoned on one estate, as the land which was on lease to a single tenant is now to be sold by Government.

2. It has only been found possible so far to introduce the volumetric system of assessment on large estates, the property of a single owner, and no satisfactory method of supplying water on this system to small cultivators or village has so far been devised. An endeavour has been made to charge rates for volumetric supplies which would bring in about the same revenue to Government as for acreage assessment. The conclusion to be derived from the experience gained so far is that volumetric rates have been pitched rather low.

If it is agreed that volumetric rates should be so pitched as to bring in the same revenue as in the case of acreage assessment, it follows that the only financial benefit that Government can obtain is by the reduction of the revenue staff now employed in recording the area of crops irrigated.

The area of land to which water is supplied on a volumetric basis is too small to make it possible to effect any appreciable reduction in the revenue staff and hence no conclusion on the financial aspects of the volumetric system of assessment can be formed at present.

(iii) *Statistics.*

A statement giving the desired statistics in the form prescribed accompanies this letter.

Figures for each canal system for the years 1921-22 and 1922-23 are supplied.

Irrigation System	1921-22					1922-23				
	Water rate collected from land irrigated by the system	Cost of maintaining the irrigation system	Net income from system.	Capital cost of system	Ratio of 4 to 5	Water rate collected from land irrigated by the system	Cost of maintaining the irrigation system.	Net income from system	Capital cost of system.	Ratio of 4 to 5.
1	2	3	4	5	6	2	3	4	5	6
	Rs	Rs	Rs	Rs.	Per cent	Rs	Rs.	Rs.	Rs.	Per cent.
Productive Works										
Western Jumna Canal	28,93,467	18,15,322	10,78,145	1,83 64,502	5 92	36,32,462	16,91,703	19 40,759	1,88,65,618	10 28
Sirhind Canal	52,79,889	15,52,679	37,27,210	2,59,42,802	14 37	52,16,371	16,43,493	35 72 870	2 61,50,658	13 61
Upper Bari Doab Canal	43,02,846	19,09,760	23 93,086	2,12,09,118	11 34	50,09,656	16,19,870	33 89,786	2 12,78 561	16 05
Lower Bari Doab Canal	23,62,352	20,00,390	3,61,962	2,26,73,443	1 59	32,30,420	21,98,285	10,32 135	2 27,28,620	4 58
Upper Chenab Canal	30,56,056	19,70,812	10,85,244	3,56,16,031	3 05	33,21,581	20,29,488	12 94,003	3,62,14,406	3 56
Lower Chenab Canal	91,22,281	29,95,757	61,25,524	3,32,24,884	18 44	97,19,510	28,63,873	68,85,643	3,35,55,558	20 52
Upper Jhelum Canal	15,21,971	17,36,809	—2,14,838	4,45,61,675	—0 48	14,60,468	18,03,869	—3,43,401	4,44,88,446	—0 07
Lower Jhelum Canal	28,88,101	14,85,599	14,02,502	1,79,31,040	7 82	29,43,582	11,04,305	18,39,167	1,85,32,119	9 97
Upper Sutlej Inundation Canals	5,41,431	6,91,352	—1,49 921	18,29,777	—8 19	7,08,002	6,49,999	58 003	18,27,384	3 17
Sidhnai Canals	1,48,202	2,03,736	—58,534	13,30,522	—4 17	3,57,622	1,59,269	1 98 353	13 27,951	4 35
Indus Canals	3,12,208	7,82,173	—4,69,965	29,73,787	—5 80	2,59,009	8 90,596	—6 31,583	29,79,412	—22·72
Unproductive										
Shahpur (Imperial)	47,797	90,523	—42,726	3,25,021	—19 00	68,597	93,537	—24,940	2 25,021	—11·08
Ghaggar Canals	7,807	28,863	—21,056	3,87,572	—5 43	18,136	40,481	—22,345	3,88,435	—5·75
Non Capital Works										
Lower Sutlej Chenab Canals	1,98,653	4,03,341	—2,04,688	No Capital accounts for these works are kept		3,46,830	3,19,523	+27,307	No Capital accounts for these works are kept.	...
Muzaffargarh Canals	90,431	1,67,127	—76,696			2,26,024	2 80 284	—54 262		
Shahpur (Provincial)	2,43,929	4,21,793	—1,77,864			2,51,763	4,08 985	—1,57,222		
	29,118	67,311	—38,193			41,275	96 215	—54,940		

Mr. Sangster gave oral evidence as follows :—

The President. *Q*—Before we actually go into the details, will you please explain to us some of the terms used in this connection? Will you please explain what is meant by "duty"?

A.—In designing our canals we start by saying that we will give water at the rate of one cusec at the distributary head for 80 acres or more of summer crop The duty in the *rabi* will be twice that. One cusec will irrigate twice as large an area in winter as in summer, so that it means 240 acres or more for a cusec for the whole year. That is the basis on which we design our canals.

Sir Percy Thompson. *Q*—What is a cusec?

A—One cubic foot of water per second is a cusec.

Q—That is enough to irrigate 80 acres in one harvest and 160 in another?

A—Yes, approximately.

Q—Would the 160 include the 80 or is it different?

A.—There will be some overlapping, as double cropping occurs But in practice out of a thousand acres we only give enough water for 750 acres of high colony "Bar" land during the year, and out of that area of 750 acres we say that one-third will be irrigated in the *kharif* and two-thirds in the *rabi*

Q—And 250 will lie fallow?

A.—Yes. That is, 750 will be lying fallow in the summer and 500 in the winter.

Dr. Hyder Q—So, one cubic foot of water per second irrigates 80 acres in *kharif* and 160 acres in *rabi*?

A.—Yes But various crops require varying number of waterings For instance, sugar-cane requires perhaps 15 waterings, rice perhaps 20 waterings in about three months The quantity of water required varies tremendously and roughly according to that we also vary the water rate.

The President. Q—The canal discharges the water for how long?

A—Throughout the year, except during the time when repairs are being executed We close the canals periodically. But generally they will be flowing day and night.

Q—In inundation canals it is different?

A.—Yes, they only flow for about four months in the year.

Q—Is there any difference between *kharif* and *rabi*? Is it easier to give water in one season rather than in the other?

A.—There is more water available in the *kharif*, and in the *rabi* it is very strictly limited For instance, we have five big canals taking out of two rivers, and as there is not enough water for all we have a programme of rotation. We have periods of 12 days each, and one canal may run for perhaps only one period out of two, or for three periods out of five Then the branches have to be run in rotation among themselves If a big canal runs for 24 days out of 36, a branch may be run for only 18 or 20 days out of 36.

Q—We come to the fields. How many squares have you to an outlet?

A—The average size of the outlet is 2 cubic feet a second, *i.e.*, 2 cusecs, and the area is 700 acres approximately, that is, about 28 or 30 squares.

Q—And the owners of those squares have to settle rotation among themselves?

A.—Yes

Q—You can reduce the water that is taken to gallons?

A—Yes But we would get such large figures that we prefer to work in cusec days. One cusec flowing for 24 hours will be one cusec day.

Q.—What relation has the number of cubic feet you allow for a square to the crop?

A—One watering means a depth of 3 to 5 inches in the field You give that depth of water at one time Then you give another watering a week or more later Sugar cane will require watering once a week like that. We take the average into account. 240 acres per cusec measured at distributary head for the whole year is our average. But with that he cannot grow sugar-cane in all

his fields. He will have to grow some crops like gram, etc., which require only two or three waterings.

Sir Percy Thompson. Q—In the beginning of the year he knows how much he is going to get and he has to plan out accordingly?

A.—Yes

Q—If you are going to give him a certain quantity of water in the course of the year, why not let him just grow what crops he likes without charging differently? He only gets the same amount of water and why not charge him for that amount? I do not see why you should have differential rates as long as he gets the same quantity of water.

A.—Well, in certain areas we are doing that. We are having a volumetric rate and we are charging so much per cusec-day independently of what he grows But our difficulty is to fix the rate

Dr. Hyder Q—In reply to question 13, you say "In the case of a Government commercial or semi-commercial undertaking, the endeavour should be to secure a commercial return" But if I may refer you back to what you have been saying now, it seems that you want to get out of the man as much as you possibly can.

A.—That is a commercial return in a way I suppose a commercial firm takes as much as it can In fact, there is no definition of "commercial return" anywhere. It is not easy to say exactly what is meant by the term "commercial return."

Q—You think there is no element of monopoly profit, and therefore no taxation?

A—No We try to get what is really a fair commercial profit. That is, we must get enough not only to pay for the interest on the capital and for maintenance and repairs, but we must take enough on the whole system of canals in the whole province to pay for some canals which are run at a loss Some canals make a high profit and others run at a loss But we must get a reasonable or a fair commercial return on the system as a whole. Otherwise we will not be able to undertake any scheme in the future unless it is able to pay the interest, maintenance charges, etc Therefore, we must have a sufficient margin on the successful canals to provide for those which will be less successful.

Q—Will you please explain what is your system of water rates and why it is that the volumetric system is not practicable?

A.—From the Government point of view, volumetric assessment is not flexible The province depends very much on water rates for general revenues But it would not be profitable for Government to have fixed returns It is better for Government to have a fluctuating system and so share in the general prosperity.

Q—I think you have fluctuating rates applied field to field?

A—For different crops we have different rates For wheat, for instance, it is Rs 5, cotton Rs 6, gram Rs 3 an acre and so on

Q—Your canal *patwari* goes to every field and finds what the crop is growing?

A—Yes

Q—The Committee appointed by the United Provinces Government proposed that the canal rates should be based on prices

A—Roughly our rates also are based on prices You find that the crops which require more water are also more valuable crops For instance, our highest charge is for sugar cane The next is for rice which is another very valuable crop

Q—You vary the rates yearly or after a fixed period?

A—The rates which were existing till last year were fixed some 25 years ago and they had never been changed They were changed only last year Those were fixed when the canals had been started So that we do not change these rates very often

Q.—Surely that is not basing your rates on prices

A—They were originally fixed on the quantity of water required by each particular kind of crop, and that generally happens to correspond with the prices, so that you can base your system on either

Q—What is your view of the objection raised by the Members of the Punjab Council that the Government was not justified in raising these rates because the taxpayer is already paying the interest on the amount raised for the purpose of constructing these canals?

A—There is no force in that argument because they had not taken this fact into consideration, *viz.*, that we may have in future to undertake some less profitable schemes, and as we try to keep the rates uniform we would not be able to fix for any new schemes any higher rates than those in vogue on other canals.

Q—Then you would have a different set of rates for the canals that are not profitable?

A.—We try to have a uniform rate all over the province. There may be slight variations.

Q—The Irrigation Commission recommended a system of selling water by quantity. Technically do you find any difficulty in the system of modules?

A.—No. [illegible]
able for sup[illegible]
described in [illegible]
Report of 19[illegible] water-pipe.
[illegible] want it. But
[illegible] under which
[illegible] say, "I do
not want it now"

Q—Why should you insist that he must take the water when you choose to give it?

A.—Because we cannot turn it on and off as you do with water in pipes We have sometimes to lead water for 200 miles from the river down to the field, and it takes 6 or 7 days for it to travel the 200 miles Then if the man says, "I do not want the water now," it will take another 6 or 7 days for the water to be turned off.

Q.—Notice of these times are given to agriculturists?

A.—Yes

Q—How long?

A.—In the *rabi* season we tell them at the end of September what the programme of running will be, say, up to Xmas, and in December what the programme will be after Xmas for the rest of the cold weather season We send round printed notices It is a programme of rotational running

Q—On account of this difficulty the system of giving water by quantity is not possible?

A—Yes: the meter system is not possible but the module system is possible We do charge by quantity. We say that a man must pay so much for so much water. Of course he is never content with what he is given, and he always wants more

Dr Paranjpye *Q*—What do you think of the proposal to combine all the charges including land revenue, water rates, etc., in one lump sum and demand?

A—I think the water rates should be kept distinct from the land revenue rates because we have to design our future canals on the experience of the present ones as to what the possible return will be. In making new canal projects, we have to work out what will be the probable return on direct receipts, *i.e.*, water rates alone You can say the water rates will be so much, but you cannot foretell what the land revenue will be on the new waste lands which are going to be irrigated. It would depend on the kind of soil and on the crops.

Dr. Hyder. *Q*—What are the owners' rates, what is the exact difference between the owners' rates and the occupiers' rates?

A.—The owners' rate is abolished, and it is no longer levied anywhere. We have a different rate called "water advantage" rate

Q—I suppose the principle underlying the supply of water is that the man is better off by this supply, and therefore the State is entitled to a share. Is that the principle?

A—Yes

The Hon'ble Sardar Jogendra Singh. *Q*—You talk of the commercial return. Can you please define it?

A.—No, I cannot.

Q—You put a *certain limit on it?*

A.—No, I would not

Q—I think the most important calculation in this is what is the return required on your capital which should be charged as water rates. You in your answers give no definition whatsoever and do not put any limit What is the commercial return which you want to secure?

A—You can say the minimum must be the interest on the capital and it must pay also for the maintenance charges and repairs, etc, but a certain margin is needed over and above that

Q—Take it as a proportion, what should be the determining factor on the capital as a whole? Let me put it in another way, suppose you call banking a commercial undertaking, what do you think the profits should be on the shares?

A.—I am afraid I cannot answer a question like that

Q—Then how do you say the Irrigation Department would not be prepared to lay down any rule as to the commercial return We want to know, you being the monopolist, in selling the monopoly are you going to be governed by any ethical limits, and if so, what those limits should be?

A.—The limit varies in different tracts If you take the Western Jumna Canal tract, you cannot raise the water rate indefinitely If you raise it too high, the people would not take water because they can afford to grow their crops on rain without canal water Your limit depends on the competition, whereas in other tracts where there is no competition your charges must depend on what the cultivators could pay.

Q—Your reason is one canal pays and the other does not pay at all Taking all these factors, could you put any limit taking into account the ability of the cultivators? That is to say, we can assess up to a certain limit In determining this what, in your opinion, should be the guiding principle?

A—Well, you ought to take something less than the maximum amount that you could take

Q—There may be one canal which pays and the other which does not pay. A square is not the average holding in the Punjab, and in the congested districts the holding may be even one acre Even then the water rate is going to be the same?

A—You mean to say that we ought to differentiate the rates

Q—Yes, we would like to be guided by you on what principle the water rates should be considered

A.—The water rates should be the same all over, and if any variation must be made, it should be made in the land revenue

Q.—What should be the return on the captial?

A.—Something like 10 or 12 per cent

Q—Will you say 10 or 12 per cent definitely?

A—No, you cannot say it definitely.

Q—Then it may be the policy of the Irrigation Department to take as much as it can. Is it not the position?

The President *Q*—I understand what Mr Sangster proposes is to pool the whole undertaking and get as a commercial return not on any individual undertaking, but on the whole undertaking Am I interpreting you right?

A—Yes, quite so

Dr Hyder *Q*—Can you if you include even the officials in the expenses of a canal department?

A—Yes, the cost of maintenance includes that also

The Hon'ble Sardar Jogendra Singh *Q*—You say if you get 10 per cent in return you will be satisfied?

A—The return should be more than 10 per cent, because out of it you have to pay your interest and other charges, and if your interest charges are more than 6 or 6½ per cent you would not have much margin left to pay for other schemes which may only pay 3 or 4 per cent or perhaps less.

Q.—Is it fair to think of the future schemes in charging on one scheme?

A.—Yes, we must In the Punjab we have taken the easy schemes first, and we take up afterwards the difficult schemes.

Q—Even on difficult schemes if you get a return of 10 per cent., you will be satisfied?

A.—Yes

Q—You would not make a difference in charging assessment on smaller holdings and larger holdings separately You will have uniform rates?

A—Yes, we must have uniform canal rates; if any difference is to be made it should be made in land revenue rates. We have also considered the proportion of water rate to the value of the crop.

Q—Have you tried to work out the produce from an acre?

A—Yes

Q—I mean the gross produce from an irrigated area?

A—Well, taking average rates I have here a statement which I prepared for a debate which we had in the local Legislative Council The figures are taken from the season and crop reports The outturn of rice is 1,700 pounds per acre, and the value is Rs 86 per acre.

Wheat, the outturn is 1,200 lbs. per acre and the value is Rs. 66 per acre.

Sugar cane, outturn 1,800 lbs and value Rs 161.

Q.—Could you put down this as the standard? What would be the cost of production in getting this Rs. 66 for wheat an acre?

A.—That I cannot say The averages are taken from a return. Rs. 66 is only a poor average We ought to take into account some tracts which get very much larger outturns also.

Q.—Can you say the entire cost of production?

A.—No, I cannot.

Q—What is the ratio by which land revenue is charged? What is the rental value of each kind of land?

A—I cannot say.

Q—Then in fixing the assessment, you won't take into consideration the available surplus?

A.—No What we have to consider is the relation between the water-rate and the value of the crop For instance, we know that in Egypt they take one-seventh, in America one fifth, but in the Punjab we take only one fifteenth to one-twentieth.

The President. *Q*—I take it that is the proportion of the gross only?

A.—Yes

The Hon'ble Sardar Jogendra Singh.—You cannot compare the two things. That is my point?

The President. *Q*—Are they gross or net?

A—They are gross. I simply took the figures out of a text book. There is a particular sentence in that book which says that irrigation rates in America are one fifth to one sixth of the value of the crop, in Egypt they are one-seventh, and in India one tenth or one eleventh. In reality in the Punjab we take only one fifteenth to one twentieth

The Hon'ble Sardar Jogendra Singh. *Q*—You sa'd in your answer to Dr Hyder that water rates are different from the land revenue Have you got any remedy in stopping this double taxation, charging double for the same thing?

A—Water rate is a charge for a commodity supplied and not a tax. Land revenue is a tax for quite a different thing. So both should be kept separate. I don't call that a double charge

Q.—Have you got any remedy to suggest by putting on a consolidated charge?

A.—I do not think there is any necessity for that. A water rate is quite different and is charged on lands which get water, whereas land revenue is charged on all lands which grow crops, whether with water or not.

Q.—There is a double tax that comes in, the land is twice taxed by water rate and the increased land tax in addition?

A.—No, I do not think so.

Q—In your report last year you compared the value of the produce from one acre of land and showed that it has decreased last year. I think from 65 to 48 or so. Why is it so?

A.—I do not understand exactly from where you have taken this.

Q—Don't you think the volumetric supply of water is more scientific?

A.—What do you mean by scientific?

Q—I mean you have a certain quantity of water which you sell for a certain sum of money If there is a general rule that so much water will cost so much money?

A—You cannot stop the supply of water when a man does not want it

Q—Speaking from a practical point of view you never supply it when he does not want it It is only when he needs the water If you think it more scientific in other countries as you have quoted in Egypt, why should not the department encourage the system of giving water by volume?

A—We have not discouraged the system We have attempted to charge exactly the equivalent of what an acreage rate would bring in We have not yet succeeded It all depends upon how the water is used One landowner uses the water economically and another wastes it

Q—For general purposes you would extend the system by volume?

A—Yes, we do not discourage it

Q—The reason is that you get more profit by volume?

A—No There are some disadvantages also in volumetric assessment. The rate fixed per unit of volume is important in the Punjab, because the Government depends so much on the water rates for its general revenues that it would stand to lose if it charged too low a volumetric rate Government shares the extra profit from a good cultivator, as the more he spreads out the water the more revenue comes in When more comes in to the cultivator, the Government also gets a small share out of it, and it thus gets more than it would from a fixed volumetric rate

Dr Hyder *Q*—Because the people are able to get more, so the Government is entitled to get more Is that right?

A—Yes.

Dr. Paranjpye *Q*—You spoke about the commercial return and you said that you consider that this commercial return must be calculated on the whole system of canals and not on one single canal, would you be prepared to extend that principle to the whole country?

A—No. I would not go beyond one province, because the conditions vary in each province The rainfall conditions and the river supplies, etc, are much the same in the Punjab canal tracts, but they are not so in other parts of India In other provinces they have storage reservoirs, but in the Punjab we have none.

Q—How would you arrange the rates to get a commercial return all over India?

A—The Government of India in the pre reform days considered that point It is not feasible now when all the provinces are more or less autonomous

Q—Theoretically speaking your proposal, if accepted, can be extended as a whole?

A.—To some extent it was done before the reforms The Government of India sanctioned all schemes of irrigation, and before they sanctioned them they probably considered the profits of a scheme from an all India point of view They considered whether a certain scheme should be sanctioned or not, and would be profitable on an all-India basis or not.

Q—Can you tell me something about the discussion that took place recently in your Legislative Council? You perhaps intended to increase the water rates?

A—The Government proposed to increase the rates The majority of the Council was against it, and they carried the resolution The majority were zamindars.

Q.—What action has been taken by Government on it?

A.—The resolution has not been accepted by the Governor. The new rates stand. But there was a slight reduction made from the original schedule and an entirely revised schedule was made.

Q.—We now come back to the question of charging at different rates on different crops. Supposing you tell the cultivator that he is likely to get for his fields so much water on such and such dates and leave the cultivator to grow the crop according to his enterprise, and do not bother about what crop he grows on it. Do you think there is any practical objection to that scheme?

A.—No, that is the practice at present I think.

Q.—No: you charge for different crops at different rates. You need not trouble yourself with what crops he is going to grow, whether it is wheat or sugar-cane, or something else?

A.—There is no objection. That is what we call the volumetric system.

Q.—Would it not simplify your scheme?

A.—Not so much; we may have fewer *patwaris*, but we would require more gauge readers.

Q.—Why do you require more gauge readers? Will this system make any difference for administrative purposes?

A.—I do not think it will make so much difference. You will require more gauge readers; you will have to record the amount of water taken by each outlet, which means a larger staff.

Q.—I put it to you like this. You tell a man that he is getting such an amount of water. Government decides what is the utmost profit that a man can make on a field, well, on that the Government charges, say, 50 per cent, and then after having settled that rate, Government should not bother about it. It is for the Agricultural Department to advise as to the best possible use of the water that is given to a cultivator?

A.—There is no objection, but the only drawback is that the Government will get a fixed amount of revenue every year and would not share any extra profits from bumper crops helped by rain.

Q.—No: this profit may vary every year. The Agricultural Department will tell you that. So it is on that you can fix your rate.

A.—So you will vary the volumetric rate?

Q.—It will vary of course.

A.—I do not think it is feasible to vary it frequently.

Q.—Say once in ten years?

A.—That is quite feasible. At present according to our acreage assessment, our income varies according to acreage matured.

Q.—Is it not the interest of the Government to see that the water and land should be utilised in the best possible way?

A.—Certainly. It is to the interest of the cultivator as well as of the Government to see that they should be utilised as well as possible. We should see also that the water is spread out as much as possible.

The President.—I understand that Dr. Paranjpye's question is only about the guaranteed area.

Dr. Paranjpye.—Yes.

The Witness.—Yes, we would give enough water for that invariably, but under this system we would get a fixed return and would not share any extra profits from irrigated areas extended by the help of rain.

The President. *Q*.—Even at present you would get a fixed return?

A.—No. With an acreage assessment we get a varying return.

Q.—Should not people use water as economically as possible, and get as much as they can from the lands? They should not waste the water, is it not?

A.—Yes, some people use water economically but some don't.

Q.—Some people grow cotton one year and grow gram another year, what will you do then?

A.—The year he grows cotton he would pay more to us, and in the year he grows gram, according to the acreage rate, he would pay less, but according to the volumetric system he would pay the same Under the acreage system if a man grows cotton, the Government would score

Dr. Hyder Q—The man also would score, why should he not grow the same thing every year?

A.—Well, it depends upon the price of the cotton. The amount of cotton growing has been much more than it was. It all depends upon the price at the time of sowing when they cannot know what the future price will be.

Dr Paranjpye Q—I have not been able to get clear about this needless complication of charging according to the crop. As regards the ethical standard, do you think half the net increased return is a fair profit to Government That would include half of the land revenue and half of the irrigation revenue? What I would say is this. Take the ordinary land not provided with water, and take the land provided with water, and find out the net profit and charge half of the difference Well, that would be a fair standard to charge, would it not?

A—Yes, it would, but it would be very much more than what we are charging now.

Sir Percy Thompson. Q—If you assume that the Government is not entitled to take 50 per cent of it, is the total water rate collected less than 50 per cent all over the province?

A—Yes If you take more in water rates you take less in land revenue If you take less in the one, you take more in the other That will be true so long as the enhanced land revenue, *plus* the water rate, does not exceed 50 per cent of the enhanced produce.

Q—Is that really the principle on which the Government are acting?

A—Yes

Q—You say that in America the ratio of water rates to crop value is one fifth to one-sixth and in Egypt one seventh, and you also say that in the case of some private canal owners they take one fourth Is it not because that they have not got any other source of income that they take one-fourth? You take one-fifteenth or one twentieth because you get the balance in other forms; but the private speculator can only take it in one.

A—We do not know really how much they take as land revenue in America and Egypt. They take a fifth to a seventh on the value of the crop as water rate, but we do not know what else they take. We take a fifteenth to a twentieth, but we take land revenue besides

Q—Now assuming that the land before irrigation is worth Rs 100, and that after it is irrigated it is worth Rs 300 The view is that the Government is entitled to take half of that difference That is, after irrigation it can take half of 200, or 100 more?

A—Not half of the difference, but half of the net profits or assets.

Q—Now then, we suppose that the actual water rate charged on that land is Rs 40 Do you take that 40 out of the 200, or out of the 100? Do you say that the State is entitled to 100—40 or 60 as water rate?

A—No. the difference is 300—100, *i e*, 200.

Q—The 200 is after he paid the water rate?

A—The principle is that the Government takes half of the pure profit.

Q—Then I think the man has a real grievance If you take on the whole half of the difference then it is quite fair But if you first take a high water rate and then take half of increased production, then I think he has a real grievance against the water rate

A—The principle of taking half of the net assets is for fixing the land revenue only and not water rate

Q—To the extent that the increase is covered by the water rate you take the whole increase?

A—You take the whole increase from the water rate for the purpose of fixing land revenue.

Q—Suppose the land was originally worth Rs 100, and after irrigation it is worth Rs 300, i.e., without paying the water rate Suppose the water rate is Rs 40. You are going to say that the increase is from Rs 100 to Rs. 260, that

is, Rs 160, and you take half of it, i e, Rs. 80 by way of land revenue in addition to Rs. 40 which is by way of water rate So that for that land he has paid Rs 120 for an increase of Rs. 200 He has paid more than half.

A.—All the same his profit is Rs. 160 and we would be taking only half of it.

Q—The question is whether you are going to take half of the increase, *i e.*, the difference between the dry and the wet land. If you take half of the total difference, it seems to me that nobody can object to the amount of your water rate, that is, as long as the total of your water rate *plus* land revenue does not exceed one-half of the total increase.

A—The principle is that you should take 50 per cent of the net profit and not 50 per cent of the increase. That is, the Government is entitled to that, though in actual practice it takes much less.

Q—Here is an act performed by the Irrigation Department which increases the value of the land and the tenant does not get half of that increase if he pays his share towards your improvement. Whereas in the one system the fixing of water rate is very important for him, in the other case it is a matter of indifference to him

A—On the other hand you must charge a certain amount of water rate You have to make your system paying Otherwise people in tracts where there is no irrigation at all will have to pay for the loss.

Q—I entirely agree. But the 50 per cent the Government is going to take in addition to the water rate is more than a commercial profit.

A—The man gets 50 per cent after paying the water rate.

Dr Hyder. *Q*—Then you have no case for increasing the water rates.

A.—You can raise your water rate until the man says that he cannot pay.

The Maharajadhiraja Bahadur of Burdwan. *Q*—Do I understand then that after you have taken your commercial profit, or the duty which you settle in the shape of water rate, any decrease in the land revenue is given after taking the 50 per cent?

A—The decrease, if any, is given at the time of the land settlement.

Q—If the water rate gives the Government a clear 50 per cent, then is the decrease given because it is more than 50 per cent?

A.—I do not say water rate gives a clear 50 per cent. The water rate is a trifle compared with the value of the crop

Q—In answer to a question put by Sardar Jogendra Singh you said that certain canals give a return of 45 per cent.

A—That includes indirect returns and we do not take them into consideration when we are getting at the correct profit We take into account only the profit out of the water rates.

Q—What will happen under your pooling system to this particular canal which gives a return of 40 to 45 per cent?

A—It will come down to 12 or 15 as compared with 40 or 45

Q—Suppose there is one channel and the Government is running it at a loss, and there is another area where the Government gets some profit. Then in which case would you raise the rate?

A—We make the rate to be the same on both canals.

Q—Suppose your existing rate is Re. 1 per acre and you now raise it to Rs. 2. Would not the assessment be rather heavy on the portion where you have already got high rates?

A—No. He would be paying the same rate per acre as every one else

Q—You have just now mentioned that there was a debate in the Punjab Legislative Council, and that although the resolution was carried, because it was carried by the land owning class, the Government brushed aside the resolution and have kept up the increased rates with certain modifications.

A—It was not because it was carried by a certain class that the Government did not accept the resolution. The Government had to balance its budget. No doubt it was in the interests of the members of the Punjab Legislative Council, the majority of whom are agriculturist zamindars, to pass such a resolution.

Q—Is there not the general feeling in your province against the raising of the water rates? Does not that resolution, in fact, indicate that there is such a feeling? Because your zamindars are practically small proprietors and are different from the zamindars in Madras or in Bengal? Again, when your water rate is uniform, I think it is the same both in the colonised areas and other areas. Your irrigation canals supply water also to lands outside the colony?

A.—Yes. Previously we charged 8 annas extra to the people whose land is outside the colony area.

Q—Suppose you are to go back to the old system and say that a particular canal has been constructed by the Government with the intention of irrigating lands in the colony area, and since it passes through the tracts outside that area the Government is perfectly justified in charging the latter at a different rate?

A—We were charging an extra fee of 8 annas to the old villagers.

Q—When you had this differential rate, was it unpopular?

A—No, not a bit

Q—That being so, don't you think that instead of your pooling system if you were to charge those for whom the canal is not intended at a higher rate, you can get a higher profit?

A.—The present system is not unpopular among the general cultivators, but among the agitators

The Hon'ble Sardar Jogendra Singh. *Q*—Are not agriculturists in the majority here?

A.—Yes: agriculture is the chief industry But the cultivators were not really concerned about this

The President *Q*—What you did was to make the rates uniform?

A—Very nearly uniform

Q—Your attempt was to make the rates uniform and to see that each man should pay for what he gets and not take advantage of any advantageous position that nature has given him?

A.—Yes.

Q.—You are not a land revenue expert?
A—No

Q—Is the land revenue assessment fixed in the canal colonies?
A.—No.

Q—All assessments are fluctuating?
A—Yes

Q—I understand that land revenue is defined as a nominal rate

A—Yes

Q—The land revenue is not assessed on half the net profit?

A—No. It is comparatively a trifle

Q—We referred you to the system which prevails in South India There is no system here at all like that? Your land revenue bears no relation to the profit on the wet crop?

A—I cannot say

Q—In working out of the profit on the canals you do not reckon the indirect traffic which comes from railways and so forth?

A—No.

Q—How do you calculate the share of the land revenue in respect of the canals?

A—The difference between the land revenue paid before the canal came into existence, and what is being paid afterwards is calculated That is the enhanced land revenue From that is deducted the cost of civil administration and the balance is credited to canals

Q.—I understand that the difference between your system as it is, and the volumetric system is that when on account of a special advantage there is a special crop, you get a share of it?

A.—Yes

Q.—You could not make volumetric system compulsory under the law?

A.—I am not sure if you could not. I do not think there is anything against it.

Q.—As it is, if a man chooses to leave the land fallow, you cannot compel him to cultivate it?

A.—We cannot charge him unless he takes the water.

Q.—You have a lot of water-logging?

A.—Yes, a certain amount.

Q.—A man can grow a wet crop on his land without actually taking the water because of the percolation from the adjoining fields?

A.—Not by percolation alone, but by flood water, rain water, etc., he can do so

Q.—A man can pump up water from the water logged areas?

A.—Yes, he can and we cannot charge him anything.

Q.—You have taken no power to charge him?

A.—No.

The Hon'ble Sardar Jogendra Singh. *Q*.—In increasing the water rate, did you prepare any statistics showing the surplus? Did you get out any figures to show what is the proportion of land revenue and water rate?

A.—We worked out the ratio of water rate to crop value and we saw that it varied between 1/11 and 1/20 according to crop.

Q.—You don't consider the question of wages in fixing the water-rates? You do not take into consideration the question of small holdings in the matter of imposing water-rates. You put all on the same rate?

A.—Exactly the same rate. We don't make any difference.

Q.—You oppose the consolidated rate because it is inelastic?

A.—Yes.

Q.—That is to say, Government can expect more revenue if it keeps the present system?

A.—Yes

Q.—Have you got any recommendation to make to the Committee to lay down any canon of water rates?

A.—I am afraid I cannot do that. I do not think you can improve on the present system. That is my opinion. Our present system of an acreage rate is quite good.

Q.—That is not the feeling of the general public in the Punjab?

A.—If you ask my opinion, I would say you cannot improve on the present system

Q.—Do you mean to say that the representatives of the people should have no hand in determining this taxation?

A.—As a matter of fact, Government recently did try to hear the representatives of the people. To a certain extent the Punjab Government changed its original schedule and issued another schedule in October reducing the rates to some extent, cancelling the schedule which was issued only in April

The President. *Q*.—You would treat the undertaking as a whole. You will make the rates uniform and vary the rate according to the crop, once in ten years, as you said to Dr. Paranjpye. Is that correct?

A.—Yes.

Mr. D. MILNE, B.Sc., I.A.S., Director of Agriculture, Punjab, was next examined.

Written memorandum of Mr. Milne.

Q. 1—As regards the adequacy of the crop statistics, I would strongly recommend that the Inland Trade returns be restarted with all speed They provided for many crops a valuable means of checking the estimates of production Taken together with statistics of areas and yields of crops they gave an indication of food supplies in the country which is essential when food grains have to be controlled as was the case with wheat here during the Great War These Inland Trade returns are also essential for the study of the economic progress of India, in short they are, in my opinion, indispensable to good government

As Director of Agriculture, Punjab, the only agricultural statistical matter which I publish is the forecast of crops Other statistical matter relating to agriculture is published by the Director of Land Records, Punjab In the Punjab, forecasts are issued for wheat, cotton, rabi oil seeds (rape seed *sarshaf*, *toria and taramira*), linseed, *til* (sesamum) indigo and sugar cane The procedure for preparing and issuing crop forecasts is laid down in Standing Order No 38 issued by the Financial Commissioners, Punjab and the Manual of Crop Forecasts published by the Government of India.

In November last a Committee composed of—

Mr H Calvert, C I E, I C S, Registrar, Co operative Societies, Punjab, (Convener),

Mr H K Trevaskis, O B E, I C S, Director of Land Records, Punjab,

Mr Owen Roberts of Messrs Clements, Robson and Company,

Mr W H Myles, Professor of Economics, Punjab University,

Mr C C. Garbett, C M G, C I E, I C S, Senior Secretary to the Financial Commissioners, Punjab,

and myself, was appointed by the Financial Commissioners to consider the suitability of the present system of forecasts and of reporting prices

The subject is being considered under the following heads —

(1) Area
(2) Outturn
(3) Prices
(4) Form of forecasts
(5) Number of forecasts
(6) The system of co-ordination of commercial intelligence adopted by the Punjab Government

The Committee's report will be put before the Financial Commissioners for their consideration and I expect, it will be available very soon

2 I may however make a few remarks here Regarding area this is satisfactory as is shown by the fact that the estimates agree fairly well with the actual area ascertained at *girdawari* (crop inspection)

Re Outturn The basis of the figures is the anticipations of not very skilled officials (Tahsil Kanungos) at Tahsil headquarters who are not in close touch with actual cultivators and various steps are proposed to improve this Here I may say that in my opinion the crop cutting experiments, that is to say, harvesting of experimental areas under proper supervision, are essential for the proper check of estimates of yields, but owing to want of staff to carry out the work we conduct far too few of these experiments to be of real use for this purpose In this matter I agree with Resolution* No 10 of the Board of

*Page 50 of the printed proceedings of the Board of Agriculture.

Agriculture passed at its meeting at Bangalore in January 1924 which reads "in the opinion of the Board of Agriculture the first step in any attempt to improve statistics should be to appoint a Statistical Assistant under each Director of Agriculture with an adequate staff for carrying out of crop cutting experiments on a limited scale with the object of determining how such experiments can best be conducted for the province generally. The organisation subsequently required could then be determined". I consider it of the utmost importance to India that this resolution of the Board of Agriculture be given effect to as early as possible.

3 In connection with statistics for the purpose of estimation of the wealth of the country I would draw your attention to the enquiries conducted under the Standing Board of Economic Inquiry, Punjab, (Rural section) and I strongly recommend that such enquiries should be carried out elsewhere. The 1924 questionnaire of the rural section of this Board indicates the nature of these enquiries

Q 15—I do not think the charge made by Government for irrigation water is excessive. Farmers who have to raise their irrigation water from the sub-soil have to incur very much more expenditure for irrigating a crop.

Regarding the plans suggested or adopted elsewhere, I think that as the canals are constructed at the expense of the general tax-payer, the general tax-payer is entitled to a fair share of the economic value of the water supplied

As regards charging for irrigation water by volume this matter was discussed at a meeting of the Provincial Board of Agriculture, Punjab, on 1st August 1924. Relevant extracts of the proceedings are attached. It will be seen from these that this system is being given a trial in the Punjab but it is still in the experimental stage.

I do not think that selling water by auction to the highest bidder is desirable in the general interest.

Q. 16.—If the land has been brought under irrigation at the expense of the State, the State is entitled to a portion of the unearned increment in the value of land

I am not prepared to suggest a proportion which the State should take. I would prefer the betterment tax to a lump sum.

Q 23—Yes

Q 24—I would agree to the tax on entertainments or on railway tickets.

Q 100—It is extremely difficult for a taxing officer to ascertain whether an agriculturist's income exceeds a certain figure or not Exemptions from payment of land revenue below a certain limit would induce fractionisation.

Owing to unavoidable circumstances, I have had practically no time to look into this questionnaire but if the Committee desire information on any particular point, data of which I am able to supply, I will be glad to do so.

Extract from the proceedings of the 2nd Meeting of the Provincial Board of Agriculture held at Lahore on 1st August 1924

PROGRESS REPORT ON SALE OF CANAL WATER BY VOLUME

The following notes on the subject had been circulated :—

(1) Punjab Irrigation Paper No. 27 (Further Notes for the sale of water for irrigation at volumetric rates).

(2) Note dated 23rd March 1924 by Mr. W. Roberts, Managing Director British Cotton Growing Association, Khanewal.

(3) Chief Engineer, Irrigation Works Punjab's letter No 1972, dated 3rd April 1924

(4) Note dated 14th April 1924 by Col. E H Cole of Coleyana Estate (Okara).

Mr. Sangster stated that the system of sale of canal water by volume is on the increase but is only practicable in the case of big land owners as one full outlet is the smallest unit on which it can be introduced It cannot be given to a zamindar who has only a share in an outlet but he said that under standing orders no application for sale of water by volume was to be refused.

Sir Mehdi Shah said that zamindars like the system but did not get the amount of water for which they were charged owing to the fact that the outlets frequently ran below the registered amounts He gave instances from experience on his own land at Chaku

The President enquired whether zamindars could not keep a check record of the amount of water passing through their outlets

Mr Sangster said that there were gauges on the spot and that zamindars could keep independent records

Mr Calvert drew attention to the last sentence of paragraph 5 of letter No 6593, dated 3rd December 1921, from the Superintending Engineer, Sirhind Canal Circle, to the Chief Engineer, Irrigation works Punjab, and said that what he said was that the time was not yet ripe to take up the volumetric system *on a large scale.*

The Director of Agriculture drew attention to Mr Roberts' letter dated 23rd March 1924 in paragraph 4 of which he suggests—

"(a) that volumetric rates to be fixed for any Canal or Division should be based on the average results as regards acreage returns of that Division. Rates should not be pitched higher or lower than this average, but may be revised every five years

(b) It may be made known what the Department consider the optimum conditions of supply in which to give volumetric, *e g*, a supply of 2 cusecs 5 cusecs or 10 cusecs This would be some guide to zamindars who may wish to apply for same

(c) The objections to the volumetric system from the Irrigation Department's standpoint may be put down, so that both sides may try to understand the others' view point and thus evolve a basis for extension of the system if it is thought advisable to do so."

Mr Sangster replied—

Re (a) This is already done The rates are fixed on average results and will of course be revised from time to time

Re (b) One outlet is the unit and we can extend the system to any outlet but cannot give it to a zamindar who has only a share in an outlet There are a very few outlets which are constructed to give a discharge as low as ½ a cusec, but on an average the outlets are constructed to give about 2 cusecs, there are some which go to a discharge of 3 or 3½ cusecs

Re (c) Objections to the system are already laid down in my letter dated 31st March 1922

Mr Sangster repeated that if people agreed to the irrigation rates the Department had no objection to selling water by volume He emphasized that so long as the channel is running no individual outlet could be stopped and water must be taken by the farmers concerned whether wanted or not Mr Sangster, further, remarked that the Irrigation Department did not gain by selling water on a volumetric basis as there was no reduction in the staff maintained to compile the necessary records A number of members did not agree with this

Mr Calvert said that the Co-operative Department would like to experiment with the volumetric system on a small minor which had on it not more than 20 villages

Mr Sangster said he would agree to such a proposal if put forward

Mr Bate's system of selling water on a delta basis was also discussed

Mr Sangster said that was only a variation of the volumetric system

The President said that the system of selling water by volume was in the experimental stage and that he understood that the Irrigation Department would be prepared to consider any suggestions offered to them regarding it

Mr Sangster agreed

Mr. Milne gave oral evidence as follows :—

The President. Q.—Mr. Milne, you are the Director of Agriculture of the province?

A—Yes, Sir.

Q—With regard to the first part of your answer, we have been relieved of this enquiry because another Committee has been appointed to investigate this matter. It is not part of our terms of reference now The only thing we are particularly concerned with is the pressure of taxation on different classes.

A.—I am afraid I have not studied that part of the question.

Sir Percy Thompson. Q.—Is the forecast of crops used for the purposes of fluctuating land revenue?

A.—Here again I cannot answer the question I think Mr. King will be able to answer this point

Dr. Hyder. Q.—About the calculation of crop forecasts it is admitted that they are not accurate, while the Americans make these forecasts and they are accurate.

Sir Percy Thompson—The American cotton forecast is a scandalous production.

A.—I do not know that But I think ours is not less accurate than those of other countries Our forecasts of areas are very accurate as shown by the checks of crop inspection when actual areas are ascertained Forecasts of yields are less satisfactory. These must be based on crop cutting experiments. We have too few crop cutting experiments. I feel that is the only sound basis on which we can depend as far as yield is concerned The crop cutting experiments are essential for the proper check of estimates of yields; also we ought to be able to check yields with our trade returns. We are not happy about the forecasts of yields In this matter I agree with the opinion of the Board of Agriculture expressed at its meeting held in Bangalore in January 1924, that the first thing in any attempt to improve yield statistics should be to appoint a special man and staff for investigating crop cutting experiments. At the present moment we have far too few of these experiments

The President Q.—Who does these crop cutting experiments?

A.—We divide it between the revenue authorities and the Agricultural Department staff We do about 50 experiments and they do about 80.

Q—What is the size of the sample you cut?

A.—The area is not more than one-third and not less than one-fifth of an acre, and much less in the case of sugar-cane. For cane they are $\frac{1}{30}$ to $\frac{1}{40}$ of an acre.

Q—Do you take this result from average areas?

A.—Our crop experiments are taken from what we think are the average areas.

Q—You still have to check these estimates by the eye?

A—The crop cutting results check the estimate by the eye.

Q—May I ask you if you perform your experiments on lands owned by your department or by others.

A.—On lands owned by zamindars.

Dr. Paranjpye. Q—What about your estimate of a 16 anna crop; is it absolutely correct?

A.—We are abandoning this system altogether, we estimate the outturns by maunds and seers.

Q—You get these estimates for a series of years and then strike the average?

A.—Yes.

Dr. Hyder. Q—You have here a complicated system of water rates Which would you like, a system of water rates based on quantity or a combined system of land revenue and all other demands, that is to say water rates, *malikana*, etc. put together?

A.—We have not tried the combined system. We are experimenting with the volumetric system. I have already mentioned this in my note.

Q—In how many places you have tried this volumetric system?

A.—We have tried this system on about half a dozen estates.

Q.—They found that they are paying more?

A.—Some farmers have said that they are paying more than by the area. But this is only a question of adjusting the rates. One man thought he made a profit; another thought he suffered a loss.

Sir Percy Thompson Q.—It was said this morning that Col. Cole found it was cheaper and the other found it dearer, because the former used the water economically

A—I think there is no doubt about that I think the volumetric system certainly tends to economic use of water but there are difficulties about this system

Dr Hyder. Q—Is it a fact that one of the difficulties is due to large outlets?

A—In the case of small farmers—yes, as the water has to be distributed among various people after it has passed through the outlet. This is one of the difficulties

Q—There is no technical difficulty due to the installation of modules?

A.—The module system is working very well.

Q—You have no particular views why the Government should not levy a combined charge for water, *malikana* and other cesses?

A—This is a question which will require a good deal of consideration How would you levy the charge, per acre of crop?

Q—No, on the net profits The land giving a net profit of a hundred rupees, after irrigation gives a profit of Rs 300, and from half of the difference you can take a certain proportion for Government for water or anything else

A—What is the advantage? I can hardly give an off-hand opinion as to whether the combination of land revenue and water rate would be a good thing or not It requires more consideration

The President Q—The process in Southern India is to settle the land as wet Supposing you have land irrigated for two crops or five crops in two years You settle that just as you settle dry land on the proportion of net assets, there is no separate charge for water at all, that is what we call wet rate

A—How would you fix it?

Q—You fix on the net profits just as you do on the land revenue

A—This system is rather new to me I would require a little time to consider the question

The President—There are many difficulties One difficulty is that the nearer you approach the margin of cultivation, the more it costs to supply water

Dr Hyder Q—You say that the charges made by Government for water are not excessive But in this very hall it has been said that the water rates are excessive Have you any information as regards cost of cultivation? You say the water rate is light We would like to compare the two

A—I was looking at it in this way People who have to lift water from the subsoil have got to pay a great deal more than those who get irrigation from the canal Obviously people in the well irrigated areas have to pay more for lifting water for irrigating the crop than those in canal areas have to pay the canal department for water

Here is a statement prepared by our Agricultural Engineer showing the actual cost of flow and lift methods of irrigation

Q—Suppose the man went in for tube wells, and in that case he need not have to pay more?

A.—It will be seen from this statement that if a man sank a tube well in a canal colony, the cost of irrigation will be about Rs. 24 per acre in the *rabi* season,

while on canals it is Rs 4-4-0 per acre in that season. In the case of wells, the total quantity of water used to mature a crop is much less than is used in the case of canal supplies Again under actual practice the cost per inch depth of water per acre on the field for the rabi crop from canal supplies is Rs 0-4-4 and if you take the Government allowance on canals the cost per inch comes to Rs 0-3-4 If you lift water from ordinary wells it costs Rs 2-8-6 and if you take tube well irrigation water it costs Rs 1-8-2 per inch per acre These figures are according to the Agricultural Engineer's calculations

Dr. Paranjpye. Q.—Does well irrigation pay the farmer?

A.—They carry on their farming

Q.—Do you strike water in all parts of the Punjab?

A.—You will get water in most places We strike salt water in some places

Q.—What is the depth generally?

A.—In a good many areas the spring level is about 20 to 40 feet. The spring level is 65 feet in Lyallpur. In others again it may be less; even up to the soil surface in waterlogged areas

Dr Hyder Q.—You say that because land is brought under irrigation at the expense of the State, the State is entitled to a portion of the unearned increment in the value of the land Well, that is a very interesting proposal But I wish to ask you whether you see any difficulties in this I mean, regarding unearned increment I think people in England were keen on it, but found some difficulties I will give you an illustration Suppose the rate of interest falls, the capital value of land increases, but how are you going to separate that increment from the increase that is due to the land getting water. That is difficulty number one.

A.—The State would have to take such proportion as would be fair assuming that the alterations are within certain limits If interest, etc, varied greatly a reassessment would be necessary.

Q.—Another difficulty is there is a rise in prices, you can overcome that by means of index numbers, but there is one more important point Suppose any increase in prices is anticipated, that will have to be discounted if the land is to be sold, is it not?

A.—I do not think that.

Q.—For example, a man can put money in industries and can get so much return, but if he puts the same money in land, he should get such a return as he would get in industries If he does not get the same from land, you are simply penalising the man who happens to be the owner of the land

A.—I do not see the point.

Dr Hyder—S[illegible]
finds that he is [illegible]
some industrial [illegible]
You can only p[illegible]
a portion of the unearned increment, but when a man buys his land and comes to know that the land is going to be increased in value, he thinks he can put that money in some other concern as he would not get the benefit of the increment to the extent that he would like

The President Q.—You only take a portion of it

A.—We are not out to tax anything further than the actual increase

The President—I think this is not involved in Mr Milne's answers at all.

Dr. Hyder—What I say is that this is one of the difficulties which arises in connection with all the proposals relating to the taxing of unearned increment.

Sir Percy Thompson Q.—What the witness is saying is that the State is not taking enough

A.—Yes

The President. Q.—You say you would prefer the betterment tax to a lump sum How would you levy it?

A.—What I meant here was that you will have then a chance to take a proportion of the increase in value which has actually taken place That is, you can adjust the tax

The Hon'ble Sardar Jogendra Singh Q—What do you think is the area of an economic holding in the Punjab, say one which can support five people?

A.—I think Mr Calvert is the man who can answer this question.

Q—You cannot give any rough idea about this?

A—I would rather not.

Q—Then again what is your experience about the prices of land, say per acre, in the Punjab? Do you think it is an economic price? Do agriculturists get 5 to 6 per cent for their money always?

A—My idea is that they do not always get that.

Q—What is the cost of production, can you give me any idea?

A—I am not prepared at present but can get you figures.

Q—People say in the Punjab that the land revenue and water rate is merely a trifle compared with the produce Is it a fact?

A—As a matter of fact, I think it is so

Q—I want the cost of production of the yield per acre of any staple crop for example, wheat

A—From figures worked out some years ago the cost of production for wheat including seed, weeding, reaping and winnowing is about Rs 25

Q—And the yield from an irrigated area?

A.—Say about 18 mds per acre

Q—Take it at 12 mds

A—12 mds is about the average for the province but take it at 15 mds per acre and Rs 5 per md

Q—What are the profits?

A—The profits must be Rs 50

Q—How much land revenue does he pay?

A—I think he pays about Rs 10 odd, that is one fourth or one fifth

The President Q—I think this was the Court of Wards figure given by Mr Calvert

A.—A man gets a better yield from well irrigation, because he cultivates better In this he has the advantage of taking water whenever he likes About lift irrigation, I think, it costs tremendously and the profits are less, but taking the volume of flow, I think, in the lift irrigation a very limited amount of water is taken while in flow irrigation more water is used Profits on both do not equalise Taking for instance lift irrigation which can command 10 acres of land it may be put under valuable crops like tobacco, sugar-cane, etc, and in that way it is able to pay well, while in a larger area lift irrigation is not paying. I am trying to show that lift irrigation can be used for intensive crops They do not grow only crops like tobacco and sugar-cane on well lands wheat and cotton are usually grown with lift irrigation as in canal areas In the limited areas irrigated by wells the farmers cultivate very much better and get a higher yield In well irrigation a man gets better yield not because he gets more water, but he looks after it better and cultivates better

Dr Paranjpye Q—The time of the supply of water is determined in the case of canals, but in the case of lift irrigation he can take water just as he likes?

A—Yes. This is also important

The President Q—I would like to ask you about this combined charge of land revenue and water rates Is not the great part of the difficulty the fact that the land revenue is much less than half net assets?

A—Yes

Q—The result is that you cannot take the full amount necessary to pay for the water and also cannot vary it so much

A—Quite so

Q—What I mean is, one effect of the combined charge is that it would prevent alteration of the rates for a long period?

A—I think it would have that tendency.

Q.—As regards the increment tax, it is quite parallel with the betterment tax. If you turn desert land into cultivable land by giving water which gives an annual income over the cost of the water and the value of the land is increased permanently, you take only half of the assets and leave a very large portion for the cultivator. Is this the justification for the increment tax in addition to the annual tax?

A.—I think so.

Q.—Can you explain the system of land revenue in the canal areas?

A.—I think I am not well enough acquainted with that

Sir Percy Thompson *Q*.—Supposing you decide that a fair distribution of the increased annual value is 60 per cent to Government and 40 per cent to the man If you are charging an increment duty over and above that, you are infringing upon the 40 per cent Is it not so?

A.—I think so

Q.—What I mean to say is, take 60 per cent, and taking that only 40 per cent is left You might take 70 or 80 per cent My whole point is this I quite agree that there may be insuperable difficulties, but the natural instinct is to take the whole thing once for all

A.—I am not able to give you any opinion on this.

Dr Hyder *Q*.—In answer to question No 24, you say 'I would agree to the tax on entertainments or on railway tickets.' To whom would you give this tax on entertainments? To the municipality?

A.—I was not thinking of that point. The State, I think, should get it

Sir Percy Thompson. *Q*.—With regard to question No 100—first part—assume that 10 acres is an economic holding and a five acre farm is an uneconomic holding If your land revenue on a 10 acre farm is Rs 100 and the man chooses to split it into two which will both become uneconomic holdings, the land revenue would be Rs. 50 on each? You will not reduce it because they are two uneconomic holdings You would collect from the two holdings the same amount of land revenue as you would collect from the ten acre economic holding?

A.—Yes.

Q.—In other words would this fractionisation be any justification for reducing the land revenue?

A.—No.

Q.—You think the result will be that, even if you do, the holdings will become less and less economic?

A.—I think so.

Dr. Paranjpye *Q*.—Is there much tobacco cultivation in the Punjab?

A.—You have given figures in the notes sent with your questionnaire I had them checked.

Q.—Is the quality of tobacco nearly uniform all over the Punjab?

A.—We have not done very much work on tobacco in the Punjab. I do not think there is much difference in the qualities of the tobacco generally grown The quality is very rough.

Q.—Is the production of tobacco per acre the same practically all over the province, at least so far as the irrigated lands are concerned?

A.—*There is little difference in the quality of tobacco* grown and I think that with equal quality of land and equal cultivation it will be the same

Q.—Will it be possible to levy an acreage tax on tobacco assuming it is intended to tax tobacco?

A.—I don't think there will be any difficulty.

Q.—Suppose you charge Rs. 5 per acre. Is it possible to give it on license?

A.—I think it is.

Q.—Two difficulties are suggested : first that the tax might weigh heavily on lower kinds of tobacco—of course you say there is little difference in the quality of tobacco—and secondly that it is difficult to estimate the amount of tobacco cultivation

A.—There would be no difficulty regarding areas.

Professor BRIJ NARAIN, M.A., Lahore, was next examined.

Written memorandum of Professor Brij Narain.

General Considerations

Methods of estimating national income are discussed in a paper read by Sir J. Stamp on "*The Wealth and Income of the Chief Powers (1914)*" before the Royal Statistical Society in 1919, (J R S S for July 1919). The paper has been reprinted in his recent work "*Current Problems in Finance and Government*" (1924) These methods have also been discussed by Knibbs in his "*Private Wealth of Australia and its Growth*".

For India it would not be difficult to estimate national income if we possessed complete statistics of production But the following figures are not available —

Agricultural Production. Yield of :—

Ragi

Other food grains and pulses (see Agricultural Statistics of India, 1921-22, Vol I page 30 Col 10)

Oil-seeds ground-nut, cocoa-nut, castor and others

Condiments and spices

Fibres other than cotton and jute

Dyes and tanning materials other than indigo.

Drugs and narcotics other than coffee and tea.

Fodder crops

Fruits and vegetables including root crops

Miscellaneous food and non food crops

Industrial Production

No figures of output are available except for the following organised industries —cotton, jute, wool, paper and iron and steel

In view of the fact that out of 10 per cent of the whole population supported by industries, organised industries support only 1 per cent, it is important for the purposes of our enquiry to estimate the output of unorganised or cottage industries An attempt was made in connection with the census operations of 1921 to take a census of hand-looms Complete figures, however, for all the provinces are not available There are at present no means of estimating the output of cottage industries, or of organised industries excepting those named above

A census of production in India will take several years, and it will not be easy to estimate the production of cottage industries But so long as this is not undertaken, all estimates of national income of India would be based upon conjecture rather than facts.

On account of the lack of reliable statistics it is more or less futile to estimate the aggregate national income of India or income *per capita.* I have not attempted to do so, and I do not attach any importance to estimates given in Annexure B Some rough idea, however, can be formed of the income of ordinary cultivators For this I refer the Committee to the last Chapter, entitled *National Income*, of my book on *Population*, but I do not pretend that my calculation is exact

Family budgets collected in different parts of the country would be useful in showing the economic position of different classes of families, but no estimates of aggregate or individual income for the whole population can be based

on them I would suggest that the possibilities of taking a census of production should be thoroughly examined. If, on account of its difficulties, which are only too obvious, and cost, the proposal is not considered feasible, the only alternative left is family budgets. These should be collected mainly by non-official agency, and the investigation should be limited to families with an income of Rs 75 per month or less. The object should be to discover the real tax-bearing capacity of the poorest classes In view of the many loose statements that are made about the prosperity of India, which is supposed to have been growing by leaps and bounds, and the incidence of taxation per head, which is supposed to be the lightest in the world, the importance of such an enquiry cannot be underestimated

Q. 7.—Yes. This information would be of the greatest use to students of economics. The existing statistics of industrial wages particularly, as given in the *Prices and Wages of India*, are unsatisfactory. They relate to a very small number of industrial establishments, and do not provide sufficient material for a study of wage fluctuations over the whole country.

Q. 8.—Estimates of national income for different periods and different countries are useful for comparative purposes They are of considerable value for an enquiry into the incidence of taxation, for, when they are reliable, they are a good index of the changes in the tax-bearing capacity of the population

As economic conditions change, the tax-bearing capacity of the population also increases or decreases Further, the tax-bearing capacity of the different classes of the population is not the same, and with changes in economic conditions it varies in different degrees in the case of different sections of the community.

There are three chief matters of interest in the economic development of India during the past 25 years:—(1) the rise of prices, (2) the decline of industries, and (3) the increasing pressure of the population on the soil in consequence of the decline of industries These factors have a direct bearing on the taxable capacity of certain classes of the population, and we may therefore consider them in some detail.

(1) The rise of prices amounts to a revolution As compared with the year 1904 the rise of prices to day is about 150 per cent, as compared with July 1914, prices were 81 per cent higher in October 1924 Have wages kept pace with the rise of prices?

In a discussion of this question the following points should be borne in mind:—

While the employers of labour are well organised, our industrial workers are practically unorganised Wages as a rule tend to lag behind prices, and they rise slowly where labour, on account of its unstable and heterogeneous character, finds it difficult to put united pressure on the capitalist class Some information about the rise of wages has been given in the last Chapter of my book on Population. It will appear that wages have not risen sufficiently and that the actual rates of wages paid are low. It is probable that real wages of the poorest classes of industrial workers (unskilled) have either remained stationary or actually fallen.

It is difficult to show that agricultural labourers are more prosperous than before So far as they receive customary wages (in kind) their condition has not changed materially. But there is an increasing tendency to substitute cash wages for customary wages in grain, and this injures the agricultural wage-earner, for his cash wages do not rise proportionately to prices.

The greatest sufferers from the rise of prices are petty clerks drawing Rs 50 per mensem or less who live in towns.

With very few exceptions, the great rise of prices has diminished the taxable capacity of the wage-earning classes

For (2) and (3) I may again refer the Committee to my book on Population. The decline of industries and the increasing pressure of the population on the soil are discussed in Chapters V and VIII. I may draw particular attention to the consequences of the increasing dependence on the land described in the concluding portion of Chapter VIII.

There is very little doubt that the tax bearing capacity of the great majority of ordinary cultivators has not increased during the past 25 years. As the result of the diminution in the size of the holding the small cultivator is poorer than before. He does not gain by the rise of prices, as he produces very little surplus over and above his own consumption.

Indirect evidence of the fact that the taxable capacity of the poorer classes (majority of the population) in India has not increased is afforded by the slow increase of population. The death rate in India is the highest in the world. What are the causes of "the extravagant reaction to conditions of public health" in India? In spite of the universality of marriage and the high birth rate the population of India increases more slowly than that of the leading countries of the world (with the sole exception of France). There is an intimate connection between the rate of growth of population and economic circumstances of the people, and if India, under present conditions, is over-populated, it is not because the limit of expansion of the population in the absolute sense has been reached but because, as the result of the excessive dependence on agriculture and the decline of industries, the rate of growth of income, in the case of the majority of the population, is such that a more rapid increase of numbers is impossible.

These considerations suggest changes in the distribution of the burden of taxation on different classes. Taxation should be made lighter in the case of the poorer classes in towns as well as villages. On the other hand classes which have undoubtedly grown prosperous during the past quarter of a century should be made to contribute more heavily towards the expenses of the State.

There is no doubt that the small cultivator finds it difficult to pay the land revenue. The land revenue represents a little over 5 per cent of the gross produce of the land, but it is a heavy tax because the "surplus income" of the small cultivator after the existence minimum is deducted, is practically nothing.

On the other hand large landholders are more prosperous than ever before. They are certainly capable of bearing much heavier tax burdens than they do at the present time.

I would recommend the exemption of agricultural incomes below a given amount from the payment of land revenue. I would also recommend the taxation of unearned increment in the case of landed property in rural as well as urban areas. The proceeds of this tax may be divided in certain proportions between the Imperial Government and the Provincial Governments.

I have referred to land revenue above as a tax. On this subject I may quote what I have written elsewhere —

"It has been said that the controversy about the nature of land revenue, whether it is a tax or rent, is a profitless war of words. So it is in a sense. If land revenue is regarded as a money payment made by one party to another, and no further questions are asked, it is a matter of indifference whether the payment is called 'rent' or a 'tax'. But if we enquire further whether this payment is made by a tenant to the State landlord, or by a subject to the State as a contribution towards the general expenses of Government the question at once raises important issues. For if the State in India is the universal landlord it is legally entitled to the whole of the rent, and enhancement of the State's demand until it absorbed the whole of the surplus produce of the soil would be justified. But if land revenue is of the nature of a tax, then those who pay it can demand that it should be administered like a tax, for example, it might be claimed that this tax, like the tax on non-agricultural incomes, should be graduated. It is thus seen that in a practical sense, that is, considering the consequences that flow from the acceptance of one view or the other, the question whether land revenue is a tax or rent is not merely a question of words.

"It cannot be denied that the State was the universal landlord in India under Indian rulers. But the British Government has everywhere recognised a private right in land. It is certainly true that it treats land as a security for the payment of land revenue, and that non-payment of the assessed revenue entails loss of the land, but this does not imply non-existence of a private right in land.

"Again, if land revenue is regarded as rent it must be recognised that the enforcement of the State's demand in full at the present time is out of the question. Such an attempt would be politically dangerous. Thus on the one hand we have a definite recognition on the part of the State of a private right

in land, and on the other the difficulty, if not the impossibility of realizing the full State demand as rent, assuming the State to be the ultimate owner in every case Practical considerations in a discussion of the question are entitled to great weight, and we may conclude that the land revenue is for all practical purposes a tax on agricultural incomes, though, regarded as such, it is entirely different in character from the land-tax of European countries ".

(Source—Book for the Study of Indian Economic Problems, 1922, Vol II, pp. 208, 209)

Unearned increment.—There is a large amount of unearned increment in the enormous rise in the value of landed property Part of it can be appropriated by the State for its own purposes.

The taxation of unearned increment was first attempted in the German Colony of Kiauchau in 1898 The object was to discourage speculation in land and to prevent private owners, mostly Chinese, from reaping the whole benefit arising from the increase in the value of land due to the activity of the German Government in Kiauchau The success of the Kiauchau experiment led to the adoption of the tax by many municipalities in Germany The first to introduce it was the municipality of Oetzsch in Saxony. Frankfurt a. M. followed in 1904. The movement spread rapidly until 1910; 652 municipalities in addition to other bodies had introduced the tax. On February 14, 1911, an Imperial tax on increment in value (Reichszuwachssteuergesetz) was introduced by the German Government for the whole of Germany. The chief features of the tax are as follows* —

The taxable increment is the difference between the purchase price and the selling price For determining the purchase price, 1 January 1885 was taken as the basic date The tax does not apply to vacant land of less value than 5,000 M. or land, which is built upon, of less value than 20,000 M. The tax is graded according to the extent of the rise in value ; further the period of ownership is also taken into consideration The rate of tax is 10 per cent if the increase in value does not exceed 10 per cent, 11 per cent on increase in value of 10 30 per cent, 12 per cent on increase of 30 50 per cent, and thus it rises by 1 per cent till it reaches a maximum of 30 per cent on increase in value of more than 290 per cent. The maximum rate diminishes with the length of ownership.

The difference between the purchase price and the selling price is calculated after adding to the purchase price 4 per cent of the purchase price as representing the cost of acquisition, and the expenditure for buildings, improvements, etc

The seller pays the tax, but the purchaser is also liable under certain circumstances. Of the total yield of the tax, the Imperial Government originally received 50 per cent, the States which form the German Union got 10 per cent as cost of collection and administration of the tax, and 40 per cent went to the municipalities within whose jurisdiction the piece of land lay.

In 1912 13 the share of the Imperial Government in the yield of the tax amounted to about 21 million M

A tax on increment in value is also levied in England

The details of a tax on unearned increment in India can be worked out by a special committee It is the general principle which is suggested here The year 1900 may be taken as the base year for determining the increase in value There would have to be certain limits of exemption Allowance will have to be made for improvements, cost of acquisition, etc The tax may be graded, the rate rising from 10 per cent in the case of increase in value of less than 10 per cent to 30 per cent on increase of 300 per cent or more There is no doubt that the tax will be productive.

Q 2[illegible] —"*The Nature and First Principle of Taxation*" by Robert Jones (P. S. King [illegible]) brings together in one place the principles of taxation as stated by the leading economists of various countries from Adam Smith down to Conrad in Germany and Adams and Taussig in the United States

---

* *Finanzwissenschaft* by Conrad, Page 26 (8th Ed.)

A useful work in the German language is *Grundsätze der Besteurung* by K. Diehl and P. Mombert (Selected Readings in Economics, Vol XIII, of the series)

Q 27.—No. Only those who earn more than the existing minimum possess 'ability to pay'

It may be said that if the existence minimum is touched, the tax on the poor worker will be shifted to the employer But if that is intended, why not tax the employer directly and leave the poor man alone? Secondly, the tax may not be shifted, if the labourers are not well organised, and are not in a position to enforce their demands The only result of the tax under such conditions will be a fall in the standard of living, which will have cumulative effects

Qs 28-30—A poll tax has no place in a modern financial system A poll tax as a condition of the suffrage (as levied in some States of America, and Switzerland) is not to be recommended, as the payment of it tends to be assumed by political parties

Salt Qs 31—33—I do not accept the statement that "from every point of view salt is admirably adapted to be a tax-bearer" in India The salt duty is objectionable because it increases the tax burdens of those classes of the population whose tax-bearing capacity is the smallest

Conrad, a leading German economist, thus comments on the salt tax:—

> "In favour of the salt tax it is first of all urged that, when its amount is moderate, it is not much felt by the population, because it represents only a small sum in the course of a year, and is paid in small amounts But a worker's family, which consumes a hundred weight of salt in a year, pays a tax of 6 M in Germany which is only 2/3 per cent of an income of 900 M, but if the existence minimum is deducted, which may be estimated to be at least 600 M, the amount (taken away) by this one tax is 2 per cent In the case of a large family the tax may easily be 3 per cent or more
>
> "It is further urged that the (salt) tax is to be regarded only as supplementing other taxes in order to make even the poorer classes contribute to taxation; and when the lower classes of the population otherwise remain free from taxation, they will only be lightly affected by the tax But one should not forget that also those are forced to pay the tax whose incomes amount to a bare existence minimum, and this difficulty (Harte lit, hardness) must be taken into account And, moreover, as, on protectionist grounds, the taxation of other articles which enter into the consumption of the lower classes cannot be avoided, the taxation of salt leads to the over-burdening of those sections of the population whose capacity is the smallest" *

The salt duty is levied at the rate of Rs 1-4 per Md in India In France the tax is Rs 2-3-3 per Md and in Greece Rs 5 per Md In Germany, according to Conrad, a worker's family pays a tax of 6 M or Rs. 4½ in a year on an annual consumption of 56 seers In India a family of 4 persons consumes 4 seers of salt in a month, or 48 seers in a year, and thus the amount of the tax paid in a year is only Rs 1-8 It would seem that the burden of the tax is lighter in India than in Greece, France or Germany

But the burden of a tax cannot be judged merely from the amount of the tax paid, or by calculating the incidence per head of the population The burden of a tax must be considered with reference to the real tax-bearing capacity of those who pay the tax

The real tax-bearing capacity is found by deducting from the income earned the existence minimum If the income of a person amounts to a bare existence minimum his tax-bearing capacity is *nil* † Further, the existence minimum

* *Finanzwissenschaft* (8th Ed), p 159

† I may summarize this analysis of 'ability to bear' in the following general terms, Those elements of income which are necessary payments to owners of productive agents in order to sustain the productive efficiency of an agent and to evoke its application, rank as 'costs' of production, and have no ability to bear taxation The standard wages required to keep a working-class family on such a level of efficiency and comfort as will maintain and evoke the regular application of its labour power constitute labour 'costs' (Taxation in the New State, p 41 Hobson).

must be liberally conceived. It means wages which will not merely enable the labourer to exist, or keep his body and soul together, but to maintain himself and his family on a fair level of efficiency and comfort.

An unskilled labourer in Germany earns 900 M. (Gold or Rentenmark) in a year. Taking the existence-minimum to be 600 M., 300 M. represents his surplus income". A salt tax of 6 M in a year is 2 per cent of his tax-bearing capacity.

What is the annual income of an unskilled labourer in India, and what is the existence minimum?

The income of an unskilled labourer in India, in urban areas, after making allowance for irregularity of employment and occasional illness which may prevent him from working, may be taken to be Rs 30 per month, or Rs 360 per year. This income supports a family of four. The unskilled agricultural labourer earns less. The net income of a small cultivator of two or three acres does not exceed Rs 30 per month. Rs 30 per month for a family of 4 means a *per capita* income of Rs 90 per year.

It is difficult to say what is the existence minimum in India. It must vary in different parts of India, and it is higher in urban than in rural areas. It is certain that it is more than Rs 30 per month for a family of 4. This is shown by the enquiry into workingmen's budgets made by the Bombay Labour Office. Taking spinners with an income of Rs 30-40, the representative family budget (4 members), based on 43 budgets, shows an income of Rs 35 per month and an expenditure of Rs 35-3 or an excess of expenditure over income of As 3 per month. A representative budget of dock labourers, based on 36 budgets, shows an income of Rs. 35 and an expenditure of Rs. 37-4-6, or an excess of expenditure over income of Rs 2-4-6 per month.*

I would take the existence minimum in industrial centres to be *at least* Rs 30 per month for a family of 4, or Rs 360 in a year (at present prices). This means that the tax-bearing power of a family with an income of Rs. 30 per month or less is *nil*.

It will thus appear that an unskilled labourer in India whose average income does not exceed Rs 30 per month, is far more heavily burdened when he pays a tax of Rs. 1-8 to the Government on his consumption of salt in a year than the German worker who pays a tax of three times that amount. It will also appear that a comparison of tax-burdens in different countries, based merely on the amount paid, or the incidence per head of the population, is not only of no value, but positively misleading.

An interesting attempt was made in connection with census operations in the Bombay Presidency to ascertain the true economic position of the Bombay family elsewhere than in large cities. The enquiry showed that in the case of the poorest families, compulsory expenditure (excluding expenditure on education, doctor's fees and other voluntary expenditure) was 94 per cent of the

---

*It may be objected that liquor is an item of expenditure in almost every budget. In the representative budget for spinners the amount spent on liquor is Rs 1-8 and in that for dock labourers this amount is Rs 1-4. Liquor, of course, is no part of existence minimum, but even if we deduct the amount spent on liquor, the total expenditure is found to be greater than Rs 30 per month. At the same time we have to remember that the housing conditions of workers in Bombay, and some other parts of India, are abominable, and that industrial workers in Bombay "consume the maximum of cereals allowed by the Famine Code but less than the diet prescribed in the Bombay Jail Manual (p. 21)." The standard of living is low. The Report says: "It will be seen from an analysis of the statistics that the standard of living or of comfort is not a high one. Indeed, although the customs of Indian life are changing more rapidly than was formerly the case, it must be admitted that the standard is still low and in the family earning under Rs 30 very low. There has, however, been progress. The worker's earning capacity has in the long run increased. Necessaries for efficiency, such as suitable house accommodation and conventional necessaries, are not what they ought to be. The expenditure on education is little or nothing, and children in the mills are not trained up for work as the children of working class families in other chief industrial countries. Moreover, the families are not, as a rule, able to save or to support themselves in sickness or in old age." (Working-class Budgets, Bombay, p. 35).

total expenditure* Thus if a worker's family earns Rs 30 a month or Rs 360 a year, Rs 338 4 are accounted for by compulsory expenditure and only Rs 21 6 are left for education, doctor's fees, etc Now the existence minimum must include some expenditure on education, medical assistance, etc. But let us assume that surplus income' or tax bearing capacity of a family is to be judged by an excess of total income over compulsory expenditure Then in the case of a family earning Rs 360 a year, the 'surplus income' is Rs 21-6. The salt tax of Rs 1 8 per year represents 6 9 per cent of 'surplus income". This is a very high rate of taxation, higher than the rate in Germany and probably in other European countries

I would recommend the abolition of the salt tax on the ground that it is a heavy tax in the case of the poor worker From enquiries that I have made I find that the burden of the tax is felt by the poor

The suggestion made to the Committee that the salt duty should be raised to Rs 2 is either the result of ignorance of the true economic position of poor families in India or of the first principle of taxation It follows that I regard the action of the Government in doubling the salt duty in the Budget for 1923-24 as indefensible

Q. 52—In case the salt duty is abolished, I do not think it necessary that a substitute for it must be found so that "the poorest classes" do not escape taxation I do not assume that "it is proper to impose any taxation at all upon the poorest classes" A tax should be imposed only where real tax-bearing capacity exists, that is, when income exceeds the existence minimum. In European countries the majority of the lower classes earn more than the existence minimum But in India the majority of "the poorest classes" (excluding beggars of course) earn less It is dangerous to import into India principles of taxation which apply to prosperous countries of the West.

We should not also forget that even if the salt tax were abolished almost every one would be still paying some indirect taxes or other.

Tobacco Q. 121 and 122 (4) and (5)—Tobacco is a suitable subject of Imperial taxation I would favour the taxation of tobacco provided the tax is graded so that it falls heavily on the consumers of cigarettes and cigars†. Hookah tobacco should not be heavily taxed. Excepting the Sikhs, all classes of the population in the Punjab and other parts of India smoke the hookah, and tobacco is an item of expenditure in almost every worker's budget. It is not a necessity in the strict sense, but a conventional necessary, and the average worker spends about three to four times as much on tobacco as on salt which is a necessity

As regards the method of taxation the German system well deserves consideration. The Imperial Tobacco Tax of 12th September 1919, which came into force on 1st April, 1920, is graded according to the retail prices of various kinds of tobacco manufactures, and is paid by means of tax-stamps (Steuerzeichen) The duty to pay the tax rests on the manufacturer, and in the case of imported tobacco, on the importer. Payment of the tax begins as soon as

* Census Report, Bombay, 1921, Part I, p CIX.

† The tax on tobacco in Germany is thus graded —

For cigars up to 6 Pf per cigar 8 M for 1,000 cigars in 27 grades rising up to 1,600 M in the case of cigars of the value of more than 3 M per cigar, the rate of taxation per cigar thus rises from 0,8 Pf to 1 60 M

For cigarettes of up to 3 Pf per cigarette · 10 M for 1,000 cigarettes, in 14 grades up to 300 M. in the case of cigarettes exceeding 50 Pf in value The rate of taxation thus rises from 1 30 Pf. per cigarette

For finely cut smoking tobacco (finer than 1½ mm) of up to 10 M. per Kg : 3 M per Kg, in 8 grades up to 44 M. for tobacco exceeding 80 M. in value.

For other varieties of pipe tobacco of up to 5 M. per Kg, 1 M. per Kg, in 7 grades up to 9 M for tobacco exceeding 20 M in value

For chewing tobacco in rolls or sticks of up to 20 Pf per piece: 15 M per 1,000 pieces, in 6 grades up to 100 M for such tobacco exceeding 1 M in value.

For snuff of up to 5 M Kg, 1 M per Kg in 7 grades up to 4 M for such tobacco exceeding 15 M in value

tobacco manufactures are brought to the market They cannot be sold except in closed packages, which must bear labels showing the quantity and quality of their contents and the retail selling price, or the price limits of the taxation class of the contents The whole process of production of tobacco manufac- [illegible] The growers of tobacco [illegible] They must sell their [illegible] aders The operations of the traders are strictly controlled The manufacturers must submit to the Government a list of products which they intend to manufacture, and samples both of the products and of packing They must keep the manufactured products only in official warehouses meant for such purpose. They can buy their goods from and sell to only notified tobacco growers, traders and manufacturers, and keep accounts in prescribed forms Wholesale traders are allowed to keep stocks in their own warehouses, without packing and untaxed, but retailers must keep their goods in the prescribed packing and must sell them only at prices shown by the tax-stamp Finally all factories, warehouses and tobacco fields are subject to supervision

It should not be difficult to prohibit the sale of cigars and cigarettes made in India except in packages bearing a revenue stamp The chief difficulties will arise in connection with hookah tobacco It is at present not sold in packages, and it is sold to poor consumers in very small amounts, one pice worth or two pice worth at a time Further, it would be necessary to control the sale not only of manufactured hookah tobacco but of raw tobacco for, as every hookah smoker knows, the process of manufacturing hookah tobacco is simple and every consumer, with a little *rab** and raw tobacco, can make it for himself.

In addition to the stamp duty, a license tax may be charged for the privilege of exposing tobaccos for sale.

Q. 122 (*2*) *and* (*3*)—Tobacco is a State monopoly in France (since 1810), Austria (since 1784), Hungary (since 1850) and also in Italy, Spain, Portugal, Roumania, Turkey, Japan, and (recently) in Poland In Austria the cultivation of tobacco is undertaken in specified parts of the country and on a small scale The whole of the produce is handed over to the Government Prices at which the crop will be purchased by the Government are fixed when orders for cultivation are given Tobacco is manufactured in State owned factories. The French monopoly extends to production, manufacture and sale.

A State monopoly of tobacco is impossible in India Conditions are favourable for the creation of a monopoly when cultivation is restricted to particular parts of the country and the number of business in the industry is small These conditions do not exist in India Tobacco is grown almost all over the country, and the number of manufacturers and traders is very large. Apart from the manufacture of cigars, tobacco is a cottage industry, that is, hookah tobacco is manufactured by a very large number of small businessmen scattered over the whole country The establishment of a State monopoly pre-supposes that those who lose their business in consequence are compensated by the State. How is that to be done, and what will it cost?

There is no objection to the continuance of a State monopoly which is old, as the tobacco monopoly in Austria, Hungary and France. But there is the strongest objection to the creation of a new monopoly which will deprive thousands of people of their source of livelihood

Q 122 (*1*)—*Nor is an acreage duty on cultivation to be recommended.* This was tried in Prussia in 1882 The tax (*Flachensteur*) was divided into four classes according to the productivity of land The yield of the tax was very little In 1886 the highest rate was retained and applied to the whole of Germany, but even then the yield of the tax was "very insufficient" (*sehr ungenugend*)* It is obvious that when the conditions under which tobacco is grown in different parts of the country are not uniform, the rate of taxation chosen may be so high as to discourage cultivation in one province and unduly low in another province (or part of the same province) If the rate of the duty be too high it defeats its own object; if it is too low (and it will have to be

*Conrad, *Finanzwissenschaft*, p. 220

kept low in view of the differences in yield in different parts of the country); it will bring in only a small amount of revenue. The only alternative is a dozen or more rates of duty, and this is undesirable.

Customs. Qs 78 and 80—The experience of England shows that a small number of judiciously selected articles are more productive, from the financial point of view, than the indiscriminate taxation of every article which is imported. Between 1841 and 1862 the number of articles charged with duty in England decreased from 1,163 to 44, but the gross produce of the customs duty increased from £ 449,000 to £ 494,000

Imports may be divided into three classes (1) articles of common use which are more or less indispensable, (2) articles which are useful but not indispensable and (3) articles of luxury.

The taxation of class (1) would yield the greatest revenue ; of classes (2) and (3) a comparatively small amount of revenue Class (3) should be heavily taxed.

The question of taxation for revenue cannot be considered apart from that of the tariff policy of a country, for whatever scale of duties is chosen, it would exert some effect upon domestic trade and industry India has definitely adopted the principle of discriminate protection, and in suggesting changes in the tariff we must take this in view.

It is objected that a tariff which protects cannot yield revenue, and one which yields revenue cannot protect Protective duties may of course be made so heavy as to be prohibitive ; in that case they yield no revenue But moderate protection is a source of revenue which cannot be despised There are many instances in history of tariffs which have protected and also yielded revenue For example, under the German tariff of 1878 the receipts from customs increased from 103 million M in 1877 to 357 million M in 1890, and at the same time, according to Schmoller, this tariff enabled German manufacturers to secure for themselves their home market, and exercised an educative influence upon industry*.

Taxation of commodities of ordinary consumption, which are not produced in the taxing country, should yield a considerable revenue When some of these commodities are produced in the country, but not in sufficient amounts, and a policy of protection is adopted with the object of encouraging the production of these commodities, it is obvious that, if protection is successful, the diminution of imports would diminish the revenue But so long as the home industry does not reach that stage of development where imports cease altogether, import duties on such commodities will be a source of revenue

In the Indian tariff cotton goods can certainly be made to yield more revenue Increased taxation of cotton goods at once raised some political questions I am not concerned with these I am only concerned to show that cotton goods are a suitable subject of enhanced taxation

The production and imports of cotton piece goods in 1913-14 and 1922-23 were as follows —

	In million yards	
	1913-14	1922-23
Cotton piece-goods .—		
Produced in Indian mills	1164 3	1725 2
Imports	3197 1	1593 3

In 1913-14 Indian production was 36 per cent of imports In 1922-23 it exceeded the imports

The Bombay cotton industry has made rapid progress during the last ten years, but in view of the fact that in 1922 23, 1593 3 million yards of cloth had to be imported, it cannot be said that India is, or can become independent

* *Grundriss der allgemeinen Volkswirtschaftslehre*, Vol II, p 723.

of cotton imports in the near future. Of the total quantity of cotton goods retained in the country for consumption, net imports represent about 50 per cent .—

	In million yards	
	1913-14.	1922-23
The quantity of imports of cotton piece-goods and home production	4361·4	3318 5
Exports of Indian piece goods	89 2	157 0
,, foreign ,,	62 1	74 6
Total exports	151 3	231 6
Surplus available for home consumption	4210 1	3086 9
Net imports	3135 0	1518 7
Percentage of net imports to surplus available for home consumption	74 4	49 2

The imports are still much below the pre-war standard, but they show that inspite of the progress of the Indian industry, for many years to come, considerable quantities of cotton goods will continue to be imported

Of the total value of piece-goods imports, a little over 26 per cent is affected by Indian competition This percentage refers to average imports in 1909-10 to 1913 14* The position may have improved a little since then, but the quantity of cotton goods which are imported into India and which are at present not produced in the country, is large

In view of the large quantity and value of cotton imports, in view of the fact that these imports are indispensable in the present position of the Indian cotton industry and that the imports are articles of ordinary consumption, the enhanced taxation of cotton piece-goods is most desirable The Indian cotton industry, of course, will not fail to benefit by the increased taxation of imports.

I would recommend that the cotton duties should be raised from 11 to 15 per cent immediately On the finer varieties of imports, taxes may be imposed ranging from 15 to 33 1/3 per cent.

Q. 82—No The effect of an export duty is to restrict exports An export duty is paid by the foreign consumer when the exporting country has a monopoly of production and the foreign demand is inelastic But cases of complete monopoly are rare, and it is very often possible to find a substitute for an article whose export is restricted by a tax. Even the foreign demand for our jute cannot be said to be inelastic ; this is shown by the growth in the use of substitute for jute in Germany during the war. We have also to remember that India is a debtor country, and it is necessary, if she is to remain a solvent country, to preserve an excess of exports over imports at least equal to the amount of the Home Charges

Q 83—Specific duties, as far as possible. Very little use is made of *ad valorem* duties in the English and the German tariff. The disadvantages of *ad valorem* duties are well known

---

Prof. Brij Narain gave oral evidence as follows :—

The President Q—In your answer to question No 8 you refer to the decline of industries during the past 25 years Is that based on census figures?

A.—Yes.

Q—There have been certain differences in the census classification. You have allowed for them?

A.—Yes. This question has been discussed in the census report of 1921.

Q—You say that the real wages of the poorest classes of industrial workers have either remained stationary or actually fallen?

A.—Yes, after making allowance for the rise of prices.

Q—And the people who suffer most are petty clerks on Rs. 50 a month or less?

A—Yes.

*Report on the Conditions and Prospects of British Trade in India at the close of the War by Ainscough, Cmd. 442, p. 37.

Q—You say that the cultivator is poorer than before. Have you got statistics to prove that?

A.—We have figures to prove that the average holding is getting smaller, taking a period of 30 or 40 years into account. I have discussed this in my book on Population.

Q—Then you refer to the classes which have undoubtedly grown prosperous during the past quarter of a century. Can you tell us what those classes are?

A—Large land-holders.

Q.—Is that the only class?

A—That is the most important class. One may also refer to the industrialists—capitalists—but they form a very small class

Q—You say that the land revenue represents a little over 5 per cent of the gross produce of the land?

A.—This is Mr. Calvert's estimate and I have taken it from him

Q.—You would not support Mr. Dutt's suggestion to fix it at 20 per cent?

A.—Of course not.

Q—Then you say 'If land revenue is of the nature of a tax, then those who pay it can demand that it should be administered like a tax, for example, it might be claimed that this tax, like the tax on non-agricultural incomes should be graduated'. Have you any scheme for doing that?

A—I have no cut and dried scheme ready But I have suggested in my statement that agriculturists who get an income of less than a given amount, say Rs 1,000, may be exempted from paying the land revenue

Q—Supposing you graduate it, you still leave it on the land?

A.—Certainly

Q—Suppose the land changed hands, and one man bought up a number of small holdings Then how do you get over the difficulty?

A—The land revenue is paid by the cultivator You have the land revenue settlement

Q—That is, you propose to reduce at the settlement the land revenue of the smaller cultivator Your proposal is to graduate it"

A—I have not actually proposed it But certainly I have no objection to it.

Q—The graduation would fall upon the land?

A—I would take into consideration the income.

Q—Practically you would abolish the land revenue and substitute income-tax?

A.—It is very difficult to say how it would work out but surely it should not be difficult to graduate it.

Q—The other difficulty is, if you do so, will you not encourage fractionisation, the very thing which you want to avoid?

A—How?

Q—If the income reached a certain point you have to pay a tax on it So you would take care to prevent it reaching that point and if necessary break up the holding.

A.—That would be cutting one's own throat I don't think that would be the result A man will not willingly reduce his holding in order to escape the tax

Q—He might transfer certain portions *benami* to his wife or children

A—That is possible.

Dr. Hyder *Q*—With regard to the unearned increment, will you tell us something more about the Kiauchau experiment?

A—You will find it described in Seligman's "Essays in Taxation".

Q—Was that levied on all lands?

A.—I do not know whether it was levied on all lands. My information is based on Conrad (*Finanzwissenschaft*).

Q.—It is stated here (in the book) that it was not on the land held privately but only on the land held by the Government So far as Germany is concerned, you say that the tax is general?

A.—The tax was of more general application in Germany. About the Kiauchau experiment Seligman says .—

> "The tax was first imposed in the German colony of Kiauchau in 1898. When the German Government took over that possession the Admiral in charge, von Diederich, was much concerned over the difficulties that had developed in some of the Asiatic colonies, and especially in the cities opened to the world's trade by China in 1895, where a few speculators had bought up much of the land for ridiculously small sums and then held it for sale to Europeans at very high prices. The German Government was about to make large outlays in constructing harbours, erecting government buildings and building rail-road stations and factories The admiral foreseeing a great rise in land values, thought that it would be desirable for the Government to purchase a large part of the land and then sell it to intending purchasers as might be needed".

The Maharajadhiraja Bahadur of Burdwan *Q*.—May I know if that land in question was purchased by Government for agricultural purposes? I think it refers more to development schemes than to agricultural schemes?

A.—I think it had a more general application in Germany later.

Dr. Paranjpye *Q*.—Is it applicable to agricultural land in Germany?

A.—I do not know for certain.

Q.—So far as I know they apply this principle in Germany for town planning schemes.

A.—I do not know.

Dr Hyder *Q*.—Would you apply this to agricultural land in India?

A.—Certainly, that is what I propose.

Q.—Are there any difficulties in the way?

A.—There may be some.

Q.—There will be difficulty in the separation of true increments, *i e.*, in respect of improvements, from those due to changes in the rate of interest, rise of prices and so on?

A.—Let us take these one by one. Take improvements for example There should be no difficulty on account of improvements The Settlement Officers make allowance for improvements in assessing the land revenue now; why should it be difficult to do so in future? What I suggest is this: during the last 30 or 40 years there has been an enormous increase in the value of agricultural and other land If you want new sources of revenue, tax unearned increment rather than increase the salt duty.

Dr Paranjpye. *Q*.—Would you take that increment from the small landholders?

A.—No, not at all We may exempt land, say up to Rs. X.

Q.—Then if a man wants to sell land worth Rs 2 X, he has only to do so twice in order to escape taxation

A.—But it should not be difficult to prevent it It is not impossible to detect evasion.

Q.—The authorities will not be able to find it out. One sale may take place this month and another next month.

A.—You suggest that the difficulties will be very great.

Q.—Yes, unless you charge it on all lands without any exemption

A.—In the case of urban property also?

Q.—In town planning schemes, no such exemption is made. No exemption as you suggest is allowed.

A.—Now you say that if the exemption is allowed the tax will be evaded in every case?

Q.—Yes.

A.—I see that; but I think it should not be difficult to prevent evasion, though I cannot at present suggest any remedy for it.

The Hon'ble Sardar Jogendra Singh. *Q*—You have said just now that the large land-holders are benefited largely. Have you any idea of how many will pay revenue above Rs. 500?

A—I do not know.

Q—They are about 2,300 out of 2½ millions of people and that will bring about 5 lakhs Is that what you suggest?

A.—I suggested an increment tax and not raising the land revenue.

Dr. Paranjpye. *Q*—If your principle is worked out, I think you cannot give exemptions

A.—But methods may be found to prevent evasion.

Sir Percy Thompson. *Q.*—Have you any experience of the English method of taxing the increments? There what happened was this when the tax was introduced a date was fixed and it was to be levied when prices would rise above a certain maximum So far from being increments there were decrements. Is it not also possible that that point is reached in India, *viz.*, that the price has reached just the point above which it won't go?

A—It all depends upon what date you choose.

Q—How are you going to pay a tax upon an increment which has already accrued? Can you make it retrospective?

A—Yes; the German tax was made retrospective

Q—I know; but it was considered unjust in England

A—Every proposal for enhancement will be considered unjust

Q—You will be forced into making it retrospective?

A.—Yes

Q—Then where are you going to put your datum line?

A—Say 1900

Q—Have you any records of the value of property in 1900 except where land was re-settled Suppose there was a re settlement in 1890 Where are you going to fix your datum line in that case?

A.—Then there may be some difficulty.

Q—Even if you waive the injustice of making it retrospective, you could not possibly have the injustice of taking the datum line at different dates for different lands. Suppose you take 1900 as your datum line and assume there is no re-settlement

A—Do you mean to say that it is impossible to ascertain the value otherwise? There would have been sales all over the country

Q—What you mean is that by reference to sales you are going to have the valuation of land in 1900? The main reason that the existing values were fixed in England was due to the sheer impossibility of finding the original values of the land If that was the difficulty in 1909, is it not going to be far more difficult to find out the values of all lands in India as they stood on a date 24 years back?

A.—It would be difficult.

The Maharajadhiraja Bahadur of Burdwan *Q*—At page 27 of your notes you recommend the exemption of agricultural incomes below a given amount I take it that you have not worked out the scheme yourself but what you have in mind is that you would exempt lands up to a certain limit from payment of land revenue Beyond that would you continue the payment of land revenue or would you abolish land revenue and bring in what you call income tax on agricultural income?

A—I have no scheme ready. I have only suggested that the small cultivator should be exempted.

Q—You had no scheme in your mind in giving us the answer to the questionnaire?

A—No.

Dr Hyder *Q*—In answer to questions Nos 28-30, you say that a poll tax has no place in a modern financial system'. Are you aware that there was

a poll tax in the Punjab before irrigation was brought to it and there was a hearth tax levied on persons who had no visible source of income?

A.—I am not aware of it.

Q.—Are you aware of the *thathameda* and the capitation tax levied in Burma?

A.—No.

Q.—But would you condemn these taxes?

A.—Yes, I would.

The President. Q.—With regard to salt, you say you have made enquiries and find that the burden of the tax is felt by the poor?

A.—Yes.

Q.—Can you tell us the nature of your enquiries?

A.—I made enquiries among villagers in Jallo (Amritsar district). They said that when the salt tax was doubled they felt the increase. They also thought that this Committee had the power to abolish that tax and one of them said 'Get this tax abolished'.

Sir Percy Thompson Q.—Do you expect any other answer when you put that question?

A.—But the question is whether there is anything which they can call their 'surplus' income.

The President. Q.—You think an unskilled worker earns Rs. 360 a year. You don't take the family budget and say how much he spends on salt

A.—I have mentioned that in my statement. A family of 4 persons consumes 4 seers of salt in a month. This is based on enquiries made in Bombay.

Q.—Is it the same as is consumed in the Punjab?

A.—Opinions differ. People in towns do not consume so much salt. But people in villages consume a little more.

Q.—But the allowance to a prisoner in the Punjab jails is only 2/3 of that in the Bombay jails.

A.—That may be This figure of 4 seers is based on enquiries made by the Bombay Labour Office.

Q.—Does it apply to the Punjab?

A.—It may be half a seer less; but that does not affect my argument

Q.—You do not take the proportion which salt expenditure bears to the family budget of a man earning Rs. 30 a month.

A.—It is not difficult to do so. I do not think this figure of 4 seers is excessive. When I made enquiries in Jallo, the villagers said that their consumption of salt amounted to one seer per man in a month

Q.—You propose a tax on tobacco Did you ask whether the people would prefer the tobacco tax to the salt tax?

A.—No, I did not.

Q.—Would it hit the same people?

A.—It is difficult to say. But certain classes consume tobacco and others do not The Sikhs do not consume tobacco.

Q.—In so far as it hits the same person, would he prefer the old tax or would he prefer the new tax?

A.—I would certainly recommend the tobacco tax.

Dr. Paranjpye. Q.—In the estimate you have given you say that the surplus income is Rs 21 6 But I think the expenditure of Rs 1-8-0 is included excluded there, the surplus income would be different

Q.—Is there no unskilled labourer in Germany on the margin of subsistence?

A.—The majority of labourers are above the margin of subsistence.

Dr Hyder Q.—What is your authority to say that the income of the unskilled labourer in Germany is 900 gold marks?

A.—Conrad.

Dr. Paranjpye. *Q*—Does the existence minimum of 600 M include the cost of his beer and other things which he regards as necessaries but which you may regard as superfluities?

A.—It probably does.

Q—In any country almost every unskilled labourer is nearly on the margin of subsistence on account of competition of labour.

A—During the last 3 or 4 years the German unskilled labourer has been constantly getting higher wages.

Dr. Hyder. *Q*—You mean real wages?

A—Later* I shall send you an extract from a German newspaper with regard to that.

Q—Now he may get one billion marks but he can't get the same quantity of bread, butter, etc., for the same amount as he used to get in 1914.

A—That may be.

Dr Paranjpye *Q.*—You have said that you would rather tax tobacco than salt You do not expect that there would be an outcry against certain classes being exempted from taxation?

A.—I see no objection to the tax on that account

Q—You suggest the selling of tobacco in packets?

A.—It will be difficult to sell *hukka* tobacco in packages But cigars and cigarettes can be taxed by means of a revenue stamp.

Q—What is your suggestion?

A—License fees for *hukka* tobacco

Dr. Hyder *Q*—Do you charge fees even for the cultivation of tobacco or is it for selling or for manufacture?

A—There should be no license fees for growing tobacco. Tobacco should be taxed when it is sold

Dr. Paranjpye. *Q*—How are you going to put *hukka* tobacco in packets?

A—It is very difficult.

Q—Would you have a tax on acreage of cultivation?

A.—No, because the yield in different parts must be different.

Q.—Where it is small, they may not cultivate.

A.—You intend that some lands should go out of cultivation?

Q—When growing tobacco is unproductive.

A—Then you impose the tax with the intention of throwing some lands out of cultivation

Q—Is it not possible to have a differential rate for the various districts according to the yield?

A.—You may have a dozen rates but I do not consider it desirable. I don't think that this will work well.

Translation

* With the help of ten appendices it tries, among other things, to prove statistically that in spite of the heavy burdens imposed on German industries by the dictation of Versailles and the reparation payments involved thereby, in spite of the ten times heavier taxation, two to three times higher freight charges in respect of raw materials, doubling of social burdens, increase of general costs, increase of interest payments, increased expenditure in connection with welfare arrangements, increase in insurance charges against risk on account of the critical economic situation, still 'for unskilled workers in general the real peace-time wages have been reached, for unskilled workers, in part, considerably exceeded, and that the actual German wages in a large measure are almost in the same relation to foreign wages as in pre war times'"

(Weltwirtschaftliches Archiv 21 Band Heft I, Jan 1925, Sec Literatur pp 94 95)

Also see *Berliner Borsenzeitung* of 23 Sept 1923

and the owner of the water. Under the theory of half the net assets, this equal division of the surplus produce is fully justified Indeed, it is what is supposed to take place in the case of all flooded lands. Government in those cases is entitled to half the net assets of the soil to which has been applied directly the water of the river. So also it can be argued that Government is entitled to half the increased net assets due to the application of canal water to the soil Thus, in my opinion the maximum limit theoretically of the water-rate would be calculated somewhat as follows: —

Deduct from the produce of the land after the application of the canal water, the produce of the land, as it would have been without the application of the canal water. From the remainder, deduct the interest charges and the cost of maintenance of the canal, and also the increased cost of cultivation due to canal irrigation Divide the remainder by 2 If we call this remainder R per acre and the interest charges I per acre, and the maintenance charges M per acre, then the maximum limit of our rates will be R/2 *plus* 1 *plus* M.

With reference to (4), I think that if any system of assured measurement could be obtained, and if arrangements could be made for distributing water issuing from an outlet among the various persons entitled to share in the water from that outlet, then it is infinitely preferable to charge for the water by volume than to charge for it by acreage rates

(5) I cannot conceive of anyone having any knowledge of the problem accepting a proposal to sell the water by auction

Q. 16.—I entirely agree that when land newly brought under irrigation or guaranteed a supply of water for the first time increases largely in value in consequence, the State is entitled to a portion of the increase, in that (in my opinion) it can justly claim practically the whole of the increase. I would prefer to take this charge for enhanced value in the form of a lump sum rather than in the form of a betterment tax.

Q. 17.—As far as I know, tenancy laws do not affect the rates to be charged for water

Q. 38—I am not in favour of the removal of the exemption of incomes derived from agriculture which was given under Act II of 1886 This is not because I think there is not a case theoretically for the removal of the distinction, but because I think that the removal of this distinction in the Punjab would cause a great ferment and would be regarded by the people concerned as an act of bad faith The persons actually affected would, I think, be very small in number Rough calculations, I have show that the persons paying land revenue of Rs 500 per annum and over number only about 2,300 out of 3½ millions of revenue-payers. If we regard the land revenue as being equivalent to one-third, or one-fourth of the net assets (theoretically it is supposed to be one half, but we never get within a close percentage of this standard), it will be seen that probably less than 2,000 out of 3½ millions obtain taxable income from the land We shall, therefore, affect very few persons and it is not likely that we shall get more than five or six lakhs of rupees in income-tax. This figure must not be taken as more than a very rough guess I do not think we should be justified for this comparatively small sum in causing a ferment in the whole agricultural population. People will feel the tax, even though it is not imposed upon them

Q 39—It will be seen from what I have said in my answer to question No 38 that I do not agree with *dicta* contained in this question.

Q. 40—I am not in favour of reducing the limit of liability to income-tax below Rs. 2,000 Even now it is very difficult to obtain evidence of the taxability of the person, and if we lower the limit, we shall have either to include all persons who do not derive income from land or else we have to let off people who really are taxable. It is difficult enough, as it is to decide, in any case, whether a person's income is Rs 2 000 or Rs. 1,900. It is far more difficult to decide whether his income is Rs 500 or Rs 490 I think it was a step in the right direction when the taxable limit was raised from Rs 500 to Rs 2,000.

Q. 61—No.

Q 62.—I am not an advocate of total prohibition at the present stage, and I do not therefore think it necessary to give my opinion on the schemes for making good the loss of revenue which would result from total prohibition

Q 63—I do not propose to give an answer to this question

Q. 64.—I think that the taxable capacity of the province has been reached, and that any further increase in rates would cause a great diminution in the return from excise taxes without any corresponding diminution of consumption, owing to the large amount of illicit consumption of all excisable article that would inevitably take place.

Q. 65.—I consider that the Still Head Duty rates in the Punjab are not too high. I am not in a position to say whether the rates in other provinces are too high or too low.

Q. 66.—Recent increases in rates have been followed by increases in illicit production of liquor. It is doubtful, however, whether part, if not the whole, of this illicit production is not due to diminished facilities for obtaining liquor rather than to the increased price of liquor. Probably both causes operate. Before reducing the rates, I would prefer to increase the facilities for the obtaining of licit excisable articles.

Q. 67.—First part—yes. Second part—no.

Q. 68.—No.

Q. 69.—I do not think that there should be varying rates.

Q. 70.—*Tari* is not used in this province.

Q. 71.—I do not think that there need be any great variation in the rates of taxation on *ganja*, *charas* and *bhang*.

Q. 72.—As far as I know—yes.

Q. 73.—The present system of disposal of licenses for retail vend by auction is, I think, the most suitable for this province. An attempt at gallonage rates proved disastrous.

Q. 74.—It is not true that the reduction in the number of licenses has resulted in a great increase in the value of those that remain on the ground of monopoly. What has happened is that the reduction in the number of licenses, especially for country spirit, has stimulated the production of illicit country spirit, and this has in many cases decreased the value of retail licenses.

Q. 75.—I am entirely in favour of uniformity of rates for all excisable articles.

Q. 76.—No. The effect of its introduction on revenue would be decidedly depressing.

Q. 77.—I think it is imperative that steps should be taken for the control of opium smuggling. As most of the smuggling is from the Rajputana States, action can be taken effectively only by the Government of India which is the suzerain power.

Q. 96.—I regard a tax as an arbitrary exaction made by the supreme Government from its subjects. A rent is an exaction made by the owner of land for the use of the land. The main difference between the two, as I see it, is that a tax need not be subject to economic laws, whereas rent is subject to those laws. The fact that in the Punjab the basis of our land revenue is a definite share of the rent seems to me to bring land revenue within the category of rent rather than the tax. I do not know if these considerations apply to other systems.

Q. 97.—I do not believe that the prosperity of the cultivator has been affected by the land tax in this province. It is affected far more by famine conditions rather than by anything else, and as that cause has been rendered comparatively inoperative by the large increase in cultivation due to new canals, the cultivator has become increasingly prosperous in the Punjab.

Q. 98.—Land revenue in the Punjab varies with the quality of the land assessed. It is incorrect therefore to say that it ignores the ability to pay. If you have two persons each with 10 acres, one of them holding *chahi* and the other *barani* land, the person who holds *chahi* land has to pay possibly twice as much as the person who holds *barani* land in the same neighbourhood. The reason for the difference is that he gets twice as much out of his *chahi* land as the owner of *barani* land gets out of his *barani* land. Most assessments are fixed for terms of 30 years. This gives the element of certainty which is desired. It would be wrong to go beyond this. With a fixed assessment there can be very little tyranny and extortion on account of revenue collections. If the time of payment of revenue is at all inconvenient, dates can be fixed which are more convenient. This fact

Q—Such an investigator is perhaps supervised by the Deputy Commissioner?

A.—No, he is purely under the direction of the Board The Punjab Economic Board is purely a non official body.

Q—Don't you think that if you utilise the revenue officials of the district who are well acquainted with the economic conditions of the village, it will be more useful or quicker in carrying out this work? Apart from the supervising work, you might proceed more quickly?

A.—Then you might make it much more bureaucratic. By the present system. we try to do the work from the point of view of a purely scientific enquiry. We want to keep the Government as far as possible away from this kind of enquiry

Q.—Would it give you any idea of taxation?

Q—No, our object is not to find out anything connected with taxation at all Our primary object is a scientific enquiry, that is, purely an economic enquiry.

Q—Simply to find out how the people are and what are their conditions?

A.—Yes.

The President *Q*—You have made some enquiries into family budgets, have you not?

A.—Yes, only in Lahore That is only for clerks I think. It was made by Mrs Caleb. It was done by the urban section of the Board I think they have also done something with regard to ghee and milk

Dr Hyder. *Q*—In estimating the value of water from canals, I wish to ask you some preliminary questions of accounting With regard to the question of indirect revenue from canals, may I ask you what items are included therein?

A—Indirect revenue from canals?

Q—Yes, I ask you what particular items are included in this indirect revenue from canals?

A—You mean indirect credit by the canal department. That is not indirect revenue, but it is revenue pure and simple

Q—Then would you include *malikana*?

A—Yes, certainly *malikana* and land-revenue. The whole of it goes to the canal revenue

Q—Would it include the sale proceeds of the canal land?

A.—That goes to the capital cost. It goes to the capital account, not to the revenue account

The President *Q.*—You have laid down the formula of $\frac{R}{2}$ *plus* 1 *plus* M only as the maximum limit of your rates? In that you have included a portion of the land revenue as well as irrigation return?

A.—Yes.

Dr Hyder *Q*—You have got no owners' rates, but you have occupiers' rates?

A.—Yes

Q—You have *malikana*?

A.—Yes, only on those lands which belong to Government and are held by tenants.

Q.—In the past you had owners' rates?

A—I think it was abolished about 15 or 20 years ago

Q—Then with regard to your formula?

A.—But that is my own personal opinion; in that case I am not representing Government at all.

Q—What is the total capital at charge on irrigation works?

A.—I cannot give you that, I am afraid. That question the Irrigation Engineer will be able to answer.

Q—In your report "Land of the Five Rivers" for 1922 23 you estimate in para 127 that your net profit from the canals comes to Rs 270 lakhs That is after deducting the interest on the capital invested (which was previously advanced by the Government ot India) My point is with regard to the capital at charge, to know at how much this works out?

A—I am sorry I cannot give you that

Q—Now with regard to your formula, you say, deduct from the produce of the land after the application of water the produce of the land as it would have been without the application of the canal water From the remainder deduct the interest charges and the cost of maintenance of the canal and also the increased cost of cultivation due to canal irrigation Divide the remainder by 2. If this remainder is R per acre and the interest charges I per acre and the maintenance charges M per acre, then the maximum limit of your rates will be $\frac{R}{2}$ *plus* I *plus* M

This is the extreme limit to which you could go and you will deduct the value of produce per irrigated acre from the value of produce as it was without any water?

A—Yes

Q—*Plus* any incidental increase in the cost of cultivation after water has been provided?

A—Yes.

Q—That gives you interest, your maintenance, share as a monopolist, etc, and that is the extreme limit to which you could go?

A—Yes I say that the whole of the net increment is what you could take, but in order to give a man an interest in his own land, as a rough idea you would have to go to half That is what my formula means

Q.—You think that could be made a scientific principle underlying the water-rates, I mean your formula?

A—I think you might go up to that I should say that is the upward limit to which you might approximate, having regard to the conditions of the province

Q—In your original item there is no charge for land revenue?

A—You mean in the increased produce?

Q—Yes

A.—I think the land revenue would come under the increased cost of cultivation

Sir Percy Thompson *Q*.—You don't mean that Your $\frac{R}{2}$ is going to be the total increase, as between the Government and the cultivator?

A—It means this, that if you take the whole of the increment due to the application of water as your water rate and not the limit I have suggested, you won't be able to get any increase in land revenue

Q—Don't you mean that the total charge will be the hypothetical water rate?

A.—Yes

Dr Hyder *Q*—You cannot raise your land revenue on your canal irrigated area?

A—If you have increased your water rates up to the amount I have given in my formula, you can raise your land revenue Under this formula I am leaving the landowner $\frac{R}{2}$ and it is possible to get land revenue out of this remainder

Q—Are you prepared to apply this formula to other provinces?

A.—I have no knowledge of other provinces and I cannot say anything about that

Q—With regard to your own province, you will have to make an allowance in the case of owners adjacent to the river side who could divert the water, subject to the condition, of course, that he would not stop the flow of water?

A—No, he is not allowed to divert the water as he likes without the consent of the Government, because the Government is the owner

Q.—Yes, the Government is the owner, and the Government has been charging water rates to even the private owners? Your position is that Government is the owner of the water?

A.—Yes, I should say offhand Government is the owner of the water.

Q.—Surely in the Punjab this is an important matter and you should know what the value of the water is, because you will have to base your water-rates on the value of water. Was any calculation made in each locality in the canal area of the value of water?

A.—Certainly all these factors should have been taken into consideration before the water rate was fixed.

Q.—What about the question of constructing canals in less profitable areas? The rates should be the same or different?

A.—Do you mean less profitable from the point of view of having less rainfall?

Q.—Yes, not favourably situated My point is that if there are such tracts not very favourably situated, should the water rates be the same as they are round about Lahore or in any other canal area or should they vary?

A.—From one point of view the increase in the produce due to the construction of a canal is much greater from land unfavourably situated as regards rainfall than from land favourably situated as regards rainfall. The owner of the water where the canals are newly opened and where there is no rainfall at all will be able to force up his share of the produce of the land. Another point of view is that if you charge high rates from favourably situated lands because of the good yield, the people there won't take water because they will depend upon the rainfall. My opinion is when desert land is newly brought under irrigation or guaranteed water, and that increases the value of the land, there is no reason why you should not take practically the whole of the increase got by the supply of water

Dr Paranjpye. *Q.*—You suggest that by your formula R/2, which will leave the owner a particular sum, you can realise increased land revenue, but if you will go to your answer 16, you say that you would prefer to take this charge for enhanced value in the form of a lump sum rather than in the form of a betterment tax?

A.—I am thinking there of the profit that he would make if the land revenue is not increased.

Q.—After all, you leave him the net advantage; therefore the betterment of the land would be practically the capitalised value of ½R Therefore when you take part in betterment tax, you mean to take part of the capitalised value?

A.—I simply say that these are the limits up to which you can probably go. I say that the State is *entitled* to take this, and not that the State *should* take it.

Q.—Then with these three successive extortions, you practically leave nothing in the hands of the man?

A.—But I say that the ordinary owner of the land has not done anything to earn the benefit he derives from this canal

Q.—Why do you say in the beginning that you are going to leave ½R and further on say that you are going to take some part of ½R in two instalments?

A.—I only say that theoretically you can take the whole of it, there is no reason why we should not do it.

Q.—Will not there be any way of constructing the canals on a purely financial and commercial basis?

A.—Quite possible, that solves some difficulties certainly

Q.—If instead of the State going to the State Irrigation Department, it gives it to some private capitalist? The private capitalist would buy up the lands and then sell the lands to the highest bidder?

A.—I do not know if it is feasible I cannot give you any opinion on this

Sir Percy Thompson *Q.*—You say you can charge a betterment tax. I am sure you cannot do that You take the whole of your interest, whole of your maintenance charges and 50 per cent. of the balance. How can you do this? If you want anything more, can you not take it straight away, ¾, ⅔ or 4/5ths or any proportion you like to name?

A.—That is the limit for the water rates.

Q.—I thought your $\frac{R}{2}$ *plus* I *plus* M was the limit? What about your enhanced land revenue?

A—If it is due, you can take it The difficulty is that I am trying to keep land revenue quite separate from water rate. They are totally different rates

Dr. Paranjpye. Q—Is it absolutely necessary to keep these two things separate? Now that the Local Government has got land revenue and irrigation entirely for itself, why should we have these complications? Why make the man complain three times at any rate?

A—What actually happens is that land revenue and water rates are always reckoned up together Although Government charges them separately, they are considered by the payers as one government charge I have often thought that it should be possible to amalgamate all these and charge one rate But the reason why you keep land revenue separate is because it enables you to allow for differences in the soil

Q—Find out whatever profit the cultivator makes and charge each piece of land according to the profit, but do away with your land revenue and water rates as separate items, and charge in one lump sum for each year.

The President—That is the system we have in the South If the soil is good, the net assets are greater

Q—How do you do it with the fluctuating rates?

A—May I explain how our fluctuating land revenue works out actually? We have a canal rate which varies according to the crop, so much for sugar-cane, so much for wheat, so much for barley and gram, etc Then we have a land revenue rate which varies according to the soil It may be Rs 5 or Rs 2 per acre, but that is fixed It has nothing to do with the crop outturn It is charged for each particular square and each square is classed according to the soil, quite apart from what crop is grown If the man cultivates two or three crops in his square, say wheat, sugar-cane or something else, land revenue is the same, there is no difference in that, but his water rate will differ according to the character of the crop, it may be Rs 12 for sugar-cane, Rs 5 for wheat and so on

Q—Then land revenue represents an attempt to assess the unimproved value Is not that unimproved value?

A—This is not the same as the unimproved value The unimproved value as waste is nothing Land revenue is an attempt to make out the differentiation

Dr Paranjpye Q—When you talk about your R/2 formula, don't you think that R/2 should be calculated according to the best methods, that is, according to the best crop Why do you leave the option to him as to what crop he will grow Don't you ask him to cultivate the soil in the most profitable manner and charge your R/2 according to that, without any consideration to the particular crop?

A.—I think you will find people against this They prefer to have a higher rate for a valuable crop and a lower rate for a cheaper crop

Q—Why should they not grow valuable crops always?

A—I cannot tell you why they do not do it They have a rotation and they prefer to be allowed to choose their own crops in their own way. If you have a dead level of occupiers' rate, then it would not be popular People would not like it I do not think the small cultivators could do with it, and you cannot press them Perhaps big cultivators may like it, but the small cultivators have not got the foresight to see this This will be still more unpopular

The President Q.—Would it be possible to settle with all the cultivators working from one outlet?

A—It will lead to more murders The big man will get the water every time

Sir Percy Thompson Q—I understand that the total increased charge, call it by any name, is going to be R/2 I was going to suggest whether it would not be possible to take two-thirds of R instead of half of R At present you wrangle with him twice and if the whole thing is combined, you will have one wrangle. I do not say two-thirds is a right figure.

A.—That is to say you don't consider land revenue and take land revenue as a basic rate and add to it the water rate.

Q.—Yes What you are entitled to take, take by all means. You may take in any proportion you like But take it once for all Let the man see what you are going to take. Let there be only one figure

A.—Yes, I think you may do that In that case my formula goes; then you have got to take the whole increase. You leave him just sufficient to induce him to cultivate

Q—Do what you do now?

A.—Yes, but we do not take the whole increase

Q—Take some other figure, but take it in one combined charge Take 50 per cent. if you think right, take 60 per cent., but whatever the figure let it be in one combined charge

A.—Yes, I do not see why you should not If you accept that position that you are entitled to the whole increase, the difficulty is how to get the figure.

Q—It is not more than 50 per cent of the net proceeds?

A—It has been for generations It has always been 50 per cent in the Punjab

Q—I do not think 50 per cent has got the sanctity of ages?

A—I think in the Punjab at least it has got the sanctity of ages. As far as we are concerned it is that

Q—Would you not probably get increased revenue more easily than under the present system? It would be a perfectly intelligible thing to the cultivator.

A—I think he understands the present system

The President Q—The difficulty is that you have to take it on land revenue principles If you take one third of net assets of irrigated land in an area where it is expensive to supply water, the result is that your increased land revenue does not pay the interest on capital cost of your irrigation work. That system acts as a check on new developments.

A—That does not apply in the Punjab.

Q—As you go further and further towards the margin, would not your works cost you more and more?

A.—Yes.

Q—And if you reduce your land revenue percentage on the land, your return calculated on the net assets of irrigated land may come down to the point that it would not pay?

A—Why should you reduce it.

Dr Paranjpye Q.—Would it not be possible to estimate before you construct a canal what it is going to cost you and adding the maintenance and other charges to it, then say to the agriculturists that unless they pay a certain percentage of the increase in their net profits, say 75 per cent., the canal would not be constructed?

A.—He would not realise what 75 per cent would mean. We have to tell him 'we charge you such and such rates'.

Q.—Under the old canals you would charge him lower rates than under the new ones?

A.—Quite.

Q—Would they regard it as fair?

A.—If they were told that they would not get the water unless they pay those rates, that would be all right.

Q—Afterwards would they not begin to say that their rates are higher?

A.—By that time we might have sufficient time to raise the other rates.

The Hon'ble Sardar Jogendra Singh. Q—Water rate and land revenue are both charges on agricultural income? Can you define agricultural income and determine it for the purpose of these charges?

A.—We endeavour to ascertain what the produce of the land is

Q.—Would you lay down any rules for determining agricultural income for the purpose of these charges? That is, can you put it on a scientific basis?

A.—Our method of determining agricultural income from the point of view of land revenue has hitherto been different from the method from the point of view of water rate For the land revenue all calculations are based on rental.

Q.—But if we have in the first instance the agricultural income determined, then we can say that we charge so much on it for the land revenue and so on. I want to get at the modern idea of taxable surplus in the case of agricultural incomes, that is, what is left to the cultivator after allowing for his cost of production and so on

A.—Would you include rent in the cost of production?

Q.—Certainly We have to fix a certain limit You have to determine what that limit is and whether you can charge both land revenue and water rate. This must be on a certain income and I want to know how you ascertain that income.

A.—I prefer to think that it is for the increased income that he is likely to get that he should be charged

Q.—If you take 50 per cent in the case of water rate as in the case of land revenue, what would be the combined rate? What percentage does it bear to the total income? Is it possible to levy up to that standard? Does it leave any margin to the producer if you levy up that standard?

A.—I certainly think that if the State constructs a canal and provides the irrigation, it could theoretically take practically the whole of the increased produce due to its making of the canal

Q.—The State is after all interested in its subjects If your suggestion is adopted would it help the prosperity of the people? Will it not trench upon their power of production if you charge such a rate?

A.—I think you will also have to take political considerations into account

Q.—No I don't want that From actual practice, taking the case of a village where the production is greater and another village where the production is smaller, are you not shutting up the sources of revenue?

A.—I don't think you are doing that In the case of our colonies the contractors are willing to take land from the owners and pay the latter as much as Rs. 800 or Rs. 1,000 a square Again those contractors do not cultivate the land themselves, but they sub-let them on the half batai system. themselves paying half the water rate and land revenue and they make a profit out of that Why should they do this unless there is a profit?

Q.—Then why not take that and work it as the margin? Again will it hold good in the case of small holdings? In some districts, for instance, Lyallpur, the average holding is only about 5 acres

A.—But some of your smallest holdings are irrigated by wells, which are far more expensive than canals

Q.—The point is, what will be that standard of tax which will not trench upon the productive power of the people and at the same time yield good revenue?

A.—I do not think you can fix an arbitrary standard It must vary

Q.—You say that the Government does not take land revenue up to the 50 per cent?

A.—Yes, as a rule

Q.—Are you of opinion that the time has arrived when the standard should be revised, that is, to bring it in conformity with the usual practice?

A.—I prefer not to give an opinion on that

Q.—Not your personal opinion even?

A.—I prefer not to give an opinion on that, though I have definite views about it

The Maharajadhiraja Bahadur of Burdwan *Q.*—Do you think it at all a practical suggestion that the water rate should be combined with the land revenue?

A.—Both being fluctuating?

Q.—Yes

A.—I am afraid I have not considered that in detail But I have considered the possibility of having a fixed land revenue and combining the whole lot. That is much easier, I think.

Q—But when you have your land revenue fluctuating and your water rate not fixed, is it practicable to combine the two?

A—Of course in many places you have got a fixed land revenue, for instance, in the Upper Bari Doab canal There a combination would be almost an impossibility. But the combination might be possible in the Lower Chenab canal. At present I am speaking off hand I can see no reason why you should not combine, except that it does not give that flexibility which you have under the present system of differentiating between soils.

Q—Is it not the practice mostly in the colonised areas, that you charge different rates for the different kinds of crops? Would it be possible to have a uniform rate irrespective of the nature of the crop raised?

A.—I think it will be impossible judging from the fact that you have small cultivators. I do not think that the man has prudence or vision enough to save money on the more valuable crop and utilise the money when there is need for it It is much better to take it from him when he has money

Q—The other day we were told that formerly you had a differential rate for water in areas outside the colonies In one of your replies you say that 'the charge for water is not, in my opinion, adequate but any attempt to raise it would meet with very strong opposition'. Bearing this opposition in mind, suppose you put back the old rate under which you charge more for water in areas outside colonised areas?

A—We have now raised our rates and the extra As 8 which we used to charge formerly has been absorbed in the present rate

Q—Now suppose that in those areas you raise this rate further. Do you think that there will be the same objection as there would be if you raise it uniformly?

A.—Are you talking about the actual lands that have now been paying these rates or future lands? The conditions are different in the two cases

Q.—Actual lands.

A—There will be strong opposition to any increase.

Q—My point is this You probably built a canal to benefit a certain colonised area But that canal passed through other areas and the people in those areas are also benefited Now if you were to raise the rates and you have differential rates, having a higher rate for those for whom it was not originally intended, would there be the same objection as there would be in the raising of the rates in your colonised areas?

A—Not if you did it from the beginning For instance, we have got our Sutlej Valley project now in hand which will irrigate, I understand, about 400 000 acres of proprietary land which does not belong to the Government. I think it would be quite fair if you demand the betterment tax from those 400,000 acres, the produce of which is increased by your constructing the canal.

Q—You think that in this project, at any rate, this betterment tax would be justifiable?

A—I should prefer it to take in a lump rate

Q—You would introduce your rates in such a way as to appear on the surface to be uniform?

A—I would have a uniform rate and in addition a betterment tax for these proprietary areas

Q—But in the areas where you have now got this uniform rate, have you got the betterment rate?

A.—No

Q—Suppose you introduce it?

A—We did have it and we have removed it now.

Q—You don't think that at present it will be possible to reintroduce it?

A—I think it would cause great discontent I should prefer not to raise it now. Another reason against it is this. You have got to compare different colonies. If you have got a betterment tax such as you suggest, you cannot apply it only to the areas in colonies which were proprietary areas but also to the older colonies Suppose you want to put an extra rate on the proprietary

areas on the Lower Chenab canal because it is very good proprietary land and the people have done nothing to get the canal; then the colonists will quite justly say, 'you raise it here, why not raise it on the Upper Bari Doab canal'? Now if you increase it, it will amount to increasing the water rates on all the canals and that would cause very great discontent

The Hon'ble Sardar Jogendra Singh Q—Would you favour the fixing of profits on your capital just as in the case of railways? That is, if that profit is reached, that will be enough Would you give a limit to the profit to be derived?

A.—In my note I suggested that you should have a fixed rate for interest and maintenance charges and you can charge any rate for the use of water.

Q—My point is this Suppose you invest a crore of rupees on a canal. Would you favour having, say, a rate of 6 per cent after paying the charges?

A.—You should not look at it from that point of view You must look at it from the point of view that the Government is a monopolist of the water

Q—Should you not look to the prosperity of the State, that is, the people? Would you not favour the accumulation of capital in the hands of agriculturists?

A—That is not it Now a person makes use of the canal water. He gets the advantage of canal irrigation and in consequence of allowing him to retain that advantage, you will have to raise the taxes of people who do not get the water This case is different from that of the post office, railways, and other undertakings Whereas every one can use the railway or the post office, only a fraction of the people of the Punjab can have canal water You can keep the rates on railways and post offices low You can do that where it is generally used by the people But where it benefits only a section of the people, then the people who are not benefited have a right to complain that they do not participate in the benefits enjoyed by the other people

Dr. Hyder Q—But surely this section is a large section?

A—It is less than half of the total population.

The Hon'ble Sardar Jogendra Singh—Would you favour another suggestion? Suppose you limit your profit to 6 per cent and you actually get 12 per cent. Would you earmark this extra amount that you get for agricultural purposes?

A.—I don't see why you should earmark it for any purpose

Q.—So you say that you would not favour the accumulation of capital of agriculturists in this way Have you any other way of helping them?

A—I don't think that this should be allowed to accumulate in the hands of the people It should go into the hands of the State

Q—Is the State justified in charging as much water rate as it likes? Can it trench on the prosperity of the people?

A—I don't think we have gone within a measurable distance of trenching on the prosperity of the people There are large landholders and as I have already told you the contractors are willing to take the land on leases under these conditions

Q—That is only for big areas

A—Even for 25 acres it is so.

Q—In the case of the village money lender if he takes an interest of 12 to 24 per cent, you condemn him Do you think that the State can earn what it can?

A—I think the position is quite different. When the Government is a monopolist, it is a legitimate form of taxation

The President Q.—Your view is that just as Government is entitled to take a share of the produce of the soil, it is also entitled to take a share of the return on land which is more favourably situated in relation to irrigation? The cost of putting water on the soil does not govern the matter?

A—No; decidedly not I do not think that ought to be considered

The Hon'ble Sardar Jogindra Singh Q—My point is that there should be an ethical limit to it.

A—I think there should be no limit Government is entitled to share in the increased prosperity of the people due to the canals.

The President Q.—As regards earmarking the profits, Mr. Sangster told us that he would treat the irrigation enterprises as a whole, combine all the systems and have uniform rates Do you accept that?

A.—I would hesitate to accept that.

Q—May I come back to the question about land revenue due to irrigation? That is only a *pro forma* account to see whether each work is paying its way?

A—I think so

Q—You said that the principles were laid down by the Government of India. Can you refer us to them?

A—I will send the papers to you I think it was in 1904 or 1905

Q—Mr. Sangster told us that he would make the rates uniform throughout the province Do you accept that?

A—I accept it.

Q Practically to a very great extent you do charge by volume everywhere inasmuch as each person is entitled to a certain number of cusecs?

A—Not quite that We allow so many acres to a cusec In that way he gets his turn

Q—So practically it is not an unlimited supply?

A—No; it is not unlimited

Q—Suppose he grows sugarcane in one portion and some other crop in another which does not consume so much water?

A—He will have to leave the other portion fallow He cannot grow sugarcane in one corner and rice in another, because he will not have enough water.

Q—So, there is a ratio between the two, the charge and the quantity?

A.—Yes, a very rough ratio

Q—Suppose he has got a small area of sugarcane and a large area of wheat Then if he utilises the water for a larger area than he is entitled to, you can cut down the water because he is producing more than he is allowed

A—The outlet may be reduced

Q—You do not give a regular supply?

A—It is not arithmetically fixed.

Q—Then your next principle is that you must get the money on the crop while it is in his pocket?

A—Yes

Q—Let us come to the question of betterment tax In Q 16 of the supplementary questionnaire it is stated that 'proprietors of land coming under perennial irrigation should be asked to contribute by an acreage rate towards the capital cost of the canal as a condition of obtaining a supply of water'. That practically is a betterment tax?

A—Yes The matter has not been decided yet. It is under consideration

Q—With reference to the Sutlej Valley project, may I take it that you would approve of charging something for the improvement on the capital value, when you give a man for the first time a guaranteed supply of water?

A—Yes

Q—Would you take it in a lump sum?

A.—I prefer to have it assessed as a lump sum and take it over a number of years.

Q—Does it not take a number of years before land reaches its full value?

A.—Yes.

Sir Percy Thompson. Q.—You say that if agricultural incomes are taxed you will get 5 or 6 lakhs?

A—It is a guess

Q.—Supposing you reduce the limit of exemption to the original figure of Rs 500 Would that give a substantial increase in the revenue, apart from other difficulties?

A—I don't think it will be substantial.

Q—That will represent a land revenue of about Rs 125?

A.—Yes. There is also another point. If you reduce the exemption to Rs. 500, you might have to include cultivators as opposed to actual proprietors.

Q.—Do you consider the same objections to apply to income-tax on agricultural incomes which are unearned as apply to agricultural incomes generally?

A.—If you have the 2,000 limit, you exclude earned income automatically Again,—the reason is a political one—this tax would cause a great ferment and it would not be considered just by the people

Q.—Why?

A.—Because, historically, they had been making one payment and they think this is an additional payment for the land

Q.—But the land revenue is a tax on surplus.

A.—How?

Q.—It is a tax which is less than the economic rent. You do not exempt an agriculturist in England because he pays rent

A.—From that point of view you may not exempt the agriculturists from the payment of income-tax; but from the political point of view it is a tax which it is most inadvisable to impose It would cause disturbance, because they do understand the principles on which the land revenue is based, and not the principles on which income-tax is based

Q.—Don't you think that it is an anomaly that agricultural income is not included for purposes of income tax?

A.—I think so I think there is a lot to be said for the view that agricultural incomes should be included in reckoning the rate payable on the non-agricultural income.

The Hon'ble Sardar Jogendra Singh Q.—Do you think it will be fair to have an additional tax, leaving aside the political considerations?

A.—I prefer not to answer that question Personally I would not do it on political grounds That is all I can say

Dr Paranjpye Q.—Would it be practicable to differentiate incomes in smaller towns from those in bigger towns, for purposes of income-tax? The man who gets, for instance, Rs 2,000 in Lahore is obviously not in the same financial position as one who gets the same income in a village

A.—I have not considered that point But I think it is impracticable

The President Q.—You say you have made rough calculations with regard to the number of persons paying land revenue who would be liable to income-tax Can we have them?

A.—I have not made them Mr Calvert made them and he may be able to send them to you

Q.—In answer to Q 39, you say that you do not agree with the dicta contained in the question May I take it that you think it is inaccurate?

A.—I think it is inaccurate

Q.—In your answer to Q 40, you say, 'I am not in favour of reducing the limit of liability to income tax below Rs 2,000'

A.—Yes, certainly

Q.—Would you approve of collecting the local boards' profession tax by extending the operation to the income-tax down to Rs 500?

A.—I have not considered that matter I used the word 'rates' in my written answers to questions Nos 64 and 65 to mean the total taxation

Q.—With regard to supplementary Q 66, is there any unauthorised sale of methylated spirits?

A.—Not as far as I know We had some increase in the consumption of methylated spirit and we are watching the matter. But so far there is no indication that it is being used in an unauthorised manner.

Q.—Do you know anything about Cooper's brandy?

A.—I have not heard of it

Q.—You say that the reduction in consumption is largely due to diminished facilities? In your answer to Q 66, you say 'illicit production is due to diminished facilities for obtaining liquor'. What will be the effect of your Local Option Act?

A.—The Local Option Act applies only to towns and not to rural areas.

Dr. Paranjpye. *Q.*—Is there illicit distillation in towns?

A.—Yes; the other day we came across a complete still in Rawalpindi.

The President. *Q.*—In answer to Q. 67, you say you would not give the same freedom from restrictions on transport to Indian made foreign liquors as is given to foreign liquors? Would that not cause great difficulties in inter-provincial trade?

A.—Well, it means that you will have to get passes every time, but it depends on what limit you set. But I do not know if this is an objection altogether.

Q.—You know that it was one of the arrangements made after the report of the Excise Committee of 1906 that all those liquors should be given permits just like the foreign spirits.

A.—I think bonded warehouses were provided for that. Recently we had great difficulty on the question of rum.

Q.—What is sold as foreign spirits in liquor shops cannot compete with country spirit?

A.—No.

Q.—What do you think of the proposal to hand over the excise revenue on foreign liquor to the Imperial Government?

A.—I think there is a good deal to be said in favour of it.

Q.—In answer to Q. 68, you say you would not approve of the imposition of supplementary duties on foreign liquors by Local Governments? Don't you actually base your licensing fees on consumption?

A.—Very roughly. It is a rough indication of what the rate ought to be.

Q.—Would you approve a uniform rate of duty for *ganja*, opium and *bhang*, etc.?

A.—Yes.

Q.—Would you approve of a central monopoly leaving the right to provinces to prohibit if they wish?

A.—The Punjab, with reference to *charas*, would have to be compensated, because we are making a good deal of it. I think we are making from it about 12 lakhs.

Q.—Is not that going to be challenged?

A.—We shall be able to maintain it.

Q.—What is your ground?

A.—We have already done that as far as Indian States are concerned and they cannot get it except from our bonded warehouses. We have got a special agreement with Kashmir.

Sir Percy Thompson. *Q.*—Are you not trenching upon the taxable capacity of the States?

A.—No.

The President. *Q.*—Is not the duty a transit duty?

A.—It is an import duty, not a transport duty. There are legal difficulties in imposing any other duty. We think it unfair to the importer to charge the rate ruling at the time of taking the *charas* out of the bonded warehouse. We charge the duty ruling at the time when the *charas* was brought in.

Q.—Under what law is it levied?

A.—Under the Excise Act, as a duty payable on import.

Q.—It is very exceptional not to charge the duty on the stuff released from bond at the rate in force at the time of release.

A.—It has not been done. I think the Legal Remembrancer was consulted on the point.

Q.—That affects other people outside the province who get the *charas*.

A.—No. They export it in bond.

Q.—Do you destroy it after two years? Have you got this rule?

A.—It is allowed to be in the warehouse for two years. After that it is to be removed and, if not, you can prosecute the man

Q.—Does it deteriorate?

A.—It depends upon the locality. In Rawalpindi it deteriorates less rapidly than in Amritsar. In Kulu it lasts for 6 years.

Q.—Have you tried keeping it in air-tight tins?

A.—No; we do not see the good of preventing deterioration

Q.—In the case of *ganja* it is useless at the end of two years?

A.—Yes. I do not see the good of attempting to preserve it for two years. The actual cost price comes to Rs 2 or 3 a seer

Sir Percy Thompson. *Q.*—If it deteriorates, the loss does not fall on Government?

A.—No

The President. *Q.*—With regard to liquor, you object to the contract supply?

A.—I object to the contract supply because it is difficult to separate the province into the necessary areas We have got only four distilleries in the provinces and they might very well pool their profits If we had to get any liquor from outside, we should probably destroy our own distilleries eventually, because they are working under far less profitable conditions than the distilleries in the U P Another reason is, I think there will be constant complaint from the retail vendors as to the quality of liquor supplied in the areas.

Q.—Is there difference in distilleries?

A.—We tried a modified form of contract and we had areas attached to certain distilleries Then there were constant complaints from the retail licensees that the liquor was bad. I understand that there are still these complaints in Bihar and Orissa The whole thing is said to be very troublesome However we are looking into the question and watching it very carefully, and the Government orders are that if the conditions continue unsatisfactory the new system should be introduced.

Q.—In the matter of illicit distillation, is it not less now than before?

A.—I do not think it was anything like as much as it is now. The other day we came across a village with 8 separate distilleries

Q.—But 25 years ago they had a village with 40

A.—But it is far more widespread now.

Q.—I may refer you to the Report from 1903-04—page 10, where it is said that illicit distillation was very great

A.—I would only say that it is very much more serious now than it has ever been

Q.—Can you give us an idea of the variations in consumption?

A.—There is a statement at page 6 of the Excise Administration Report of the Punjab, which gives the figures

Q.—Have there been other causes at work to reduce the consumption of licit liquor besides the production of illicit spirit?

A.—The reduced facilities for the consumption of licit spirit

Q.—Do you think that the consumption of the province is still about 5 lakhs?

A.—I would not say it is as high as that I think there has been some actual reduction in consumption It went up so high because many of the people had just returned from the war and they contributed much towards it On page 8 of the report I have attempted to give some sort of calculation. Pages 8 to 9 will show what the reduction has been in the abnormal districts, what the reduction has been and up to what it is expected to go. The decrease is from 289 to 48 There are figures for 1920 21 I have reckoned that 18½ per cent of 290 thousand of gallons is lost by illicit distillation

Q.—That is the reason why I was taking you to the figures of 20 years past when it was half the consumption, and yet you say it is only 18½ per cent.

A.—Because there has been great restriction in facilities for drinking I doubt very much whether, even, if you double the quantity, you would get up to 3 lakhs

A.—The Local Option Act applies only to towns and not to rural areas.

Dr. Paranjpye. *Q*—Is there illicit distillation in towns?

A—Yes; the other day we came across a complete still in Rawalpindi.

The President. *Q*—In answer to Q. 67, you say you would not give the same freedom from restrictions on transport to Indian made foreign liquors as is given to foreign liquors? Would that not cause great difficulties in inter-provincial trade?

A.—Well, it means that you will have to get passes every time, but it depends on what limit you set But I do not know if this is an objection altogether

Q—You know that it was one of the arrangements made after the report of the Excise Committee of 1906 that all those liquors should be given permits just like the foreign spirits.

A—I think bonded warehouses were provided for that. Recently we had great difficulty on the question of rum

Q—What is sold as foreign spirits in liquor shops cannot compete with country spirit?

A—No

Q—What do you think of the proposal to hand over the excise revenue on foreign liquor to the Imperial Government?

A—I think there is a good deal to be said in favour of it

Q—In answer to Q 68, you say you would not approve of the imposition of supplementary duties on foreign liquors by Local Governments? Don't you actually base your licensing fees on consumption?

A.—Very roughly. It is a rough indication of what the rate ought to be

Q.—Would you approve a uniform rate of duty for *ganja*, opium and *bhang*, etc.?

A.—Yes

Q—Would you approve of a central monopoly leaving the right to provinces to prohibit if they wish?

A.—The Punjab, with reference to *charas*, would have to be compensated, because we are making a good deal of it I think we are making from it about 12 lakhs

Q—Is not that going to be challenged?

A—We shall be able to maintain it.

Q—What is your ground?

A—We have already done that as far as Indian States are concerned and they cannot get it except from our bonded warehouses. We have got a special agreement with Kashmir.

Sir Percy Thompson. *Q*—Are you not trenching upon the taxable capacity of the States?

A—No

The President. *Q*—Is not the duty a transit duty?

A—It is an import duty, not a transport duty. There are legal difficulties in imposing any other duty. We think it unfair to the importer to charge the rate ruling at the time of taking the *charas* out of the bonded warehouse. We charge the duty ruling at the time when the *charas* was brought in.

Q—Under what law is it levied?

A—Under the Excise Act, as a duty payable on import

Q—It is very exceptional not to charge the duty on the stuff released from bond at the rate in force at the *time of release*.

A.—It has not been done I think the Legal Remembrancer was consulted on the point.

Q—That affects other people outside the province who get the *charas*.

A—No They export it in bond

Q Do you destroy it after two years? Have you got this rule?

A.—Yes.

Q—Have you seen poppy heads being used by people as food?

A.—I have heard of it.

Q—You would not object if all supplies are cut off except those of excise opium?

A.—I would welcome it.

Q—We want to stop the opium cultivation in different parts of the country and have a central monopoly with a uniform rate of duty, so that there should be only one class of excise opium

A—You know poppy seeds are used as diet, and *kash kash* is an article of diet with no intoxicating properties

Q—You think it is practicable to arrive at uniformity, but you don't think the system of employing salaried persons for the distribution would work well.

A.—Yes The effect would certainly tend to decrease the revenue

Q—What do you think of the restrictions that should be imposed?

A--There would not be much harm if further restrictions are imposed, but my answer is that in the Punjab there would be no danger, but we know in many of these hilly tracts there is not efficient supervision and there is the danger of illicit opium manufacture

Q—You don't like the official vendor?

A—No, that would lead to corruption and loss of revenue

Q—Don't you think that the restrictions should be more strict and that Government will have to resort to these measures sooner or later under the pressure of the League of Nations?

A—Well, if you are prepared to sympathise with this and take action, you should be prepared for the corresponding loss of revenue Then there would be danger of peculation also and it would be very difficult to control

Q—Suppose you manufacture opium in Ghazipur and sell it in pills?

A—I have considered the point, but I think it will only add to the expenditure

Q—That is what has been done in Burma, where the duty is very much higher than we have?

A—I do not know what the cost of manufacturing pills will be You will require a much larger supervising staff You will have to count the bottles, etc, which will mean increased supervision and I suppose it will be like chemists getting licenses to sell poisons It will be a totally different system to ours I think the auction system is the best

Q—About this smuggling, will you approve of an idea of having a co-ordinated staff to check it?

A.—You must have something of the sort You have to rely at present upon a branch of the Excise Department The smuggling should be stopped There is a small detective branch, but it is not functioning very well now.

Q—Do you remember at one time the Government of India had an officer of the Burma Police as a co-ordinating officer, do you know why it was given up?

A—I do not remember We ourselves started an Excise Bureau, but it did not function well

Q—Would you like to restore the co ordinating officer?

A—If opium is to be the subject of world wide interest, it could be more effectively dealt with by the Government of India than by the provincial governments

Q—Then you are not interested in inter-provincial smuggling?

A—No, it does not injure us During the war there used to be a large export of smuggled opium to Burma and Calcutta and it got so bad that we had to restrict the amount of opium given to the shops We did our best to stop it.

Q.—You have not come up to the stage of having a separate staff for Excise?

A.—We have a small staff at present.

Q.—*Preventive staff?*

A.—I think we may have it. I do not think we can carry on with the present staff. We must have a preventive staff also. You cannot expect the whole work to be done by a small band of sub-inspectors.

Q.—You cannot expect the Police or Deputy Commissioner to help you in this matter?

A.—Well, except in certain districts he cannot do this. The Deputy Commissioner is doing at present as much as he can, and the whole crux of the administration is the Deputy Commissioner and unless he functions, no one does anything.

Q.—Very often the Police are called away even when the Deputy Commissioner is functioning?

A.—Yes, very often there are political troubles. The ordinary sub-inspector cannot cope with the situation. Everyone is against the excise officer at present.

Q.—Can you tell us whether the High Court have raised their court-fees?

A.—I cannot tell you that. I think the Registrar of the High Court can tell you. If you want I can get the information* for you.

Q.—*Can you tell us the details about the impending changes in regard to* the system of sale of stamps? Has it got anything to do with the system of discount?

A.—I think the changes are connected with the question of discount. We are thinking of replacing the vendors by salaried men. I shall see the files and give you an answer in more detail, if you wish.

Q. Do you think that with the increased stamp duties, the man who sells makes too much?

A.—Sometimes he does.

Q.—Can you tell us the process of collecting fees for certified copies?

A.—No, I am not in a position to do that.

Q.—You do not levy fees through the supply of stamp papers?

A.—No.

Q.—We have an agency in Madras for the issue of 2 annas stamped paper?

A.—We have nothing like that.

Dr. Hyder Q.—I do not quite understand your answer that because land revenue is a definite *share of the rent, it should be brought within the category* of rent rather than of tax.

A.—Well, theoretically, the State is the owner of the land and rate expressing the share of the rent that we take from a person who receives rent is applied also to an owner who is not a rent receiver but the actual cultivator. Suppose you work out the share of the rent which the Government should take as land revenue from large landowners as one rupee. We apply that one rupee within limits to the man who himself cultivates the land which he owns.

Q.—My point is whether land revenue is a rent or a tax. You say land revenue is a rent because it is subject to economic law. You can also express your land revenue in a sense as a tax on land. Say 50 per cent?

A.—What will you do with the person who is cultivating the land himself. All the features of the Punjab land revenue make it approximate to a rent. That is the principle on which the whole of our land revenue system is based.

---

*I have ascertained from the Registrar of the High Court that the High Court raised its court-fees as soon as the new Act enhancing court-fees generally came into force.

Q—Then the State owns the land, owns the water and the people do not own either the land or the water?

A—They have the right of occupancy, which is very important

Sir Percy Thompson *Q*—Would you take land revenue into account in estimating the weight of taxation on agriculturists?

A—No, I do not think I should.

Dr. Hyder. *Q*—Why not?

A.—Because I always regard land revenue as rent

Q.—Surely if the man owns the land himself and if he retains the rent, he would be economically better off?

A.—It depends on what amount he gets out of the land

The President *Q*—Regarding the collection of land revenue, it was said by a Punjab M L A that approximately 20 per cent of the revenue is spent on the collection alone What do you think of it?

A—It is incorrect It is also incorrect to say that we ignore the ability to pay when fixing our dates of payment This question was raised in the local Legislative Council and the answer given to the question was that we were quite willing to change the dates of payment whenever any date was proved to be inconvenient owing to special circumstances.

Q—What are your present dates?

A—They vary all over the province You cannot have the same date in Kangra as in Hissar. You often have two dates with two instalments. You have two harvests and you frequently have two dates for each harvest

Dr Hyder. *Q*—Then altogether you have four dates?

A—Yes But everything depends upon the desire of the cultivators Many will say that they will pay in one lump sum and some of them say that they will pay in one or two instalments.

Q—You say that to say 20 per cent of the revenue is spent on collection alone, is incorrect?

A—Yes, it is wildly inaccurate, as far as I can calculate only 1 8 is spent on collection.

Dr Paranjpye *Q*—Can you give us any idea on what basis this has been arrived at? What about the Patwaris?

A—The Patwari has got to do a lot of other work besides the collection of land revenue. He has to do land records work He has to do other miscellaneous work also Recently he had to prepare the voters lists. The greater part of his work is the maintenance of land records

Q—Is the maintenance of land records essential to the land-revenue system?

A.—Yes, it is most important

Q—If you abolish land-revenue, would you maintain these Patwaris even then?

A—Most certainly We have got such a fine system of land records that I cannot contemplate the abolition of it

Q.—What is the object of keeping the land-records if you abolish land revenue?

A—We have to keep these Patwaris even then Recently we held an enquiry into mortgages in certain areas in the Punjab under Mr Calvert, and we found that out of 4,800 mortgages 4,200 or so were dependent on the land records only These mortgages are entered in the mutation register by the Patwaris and these registers and the annual records which ultimately incorporate entries from these registers are the only record of these transactions. Thus the Patwari is essential. The land records system is extremely trustworthy. The enquiry showed how much the system is trusted by the people

The President *Q*—Incidentally, you charge Rs. 2 or so for entering in the mutation registers, is it not?

A.—Fees are reckoned at Rs. 3 2 0 per cent on the basis of land revenue assessment subject to certain limits When the entry relates to the acquisition of right or interest otherwise than by inheritance, the fee will be Rs 9-6-0 per cent on the revenue assessment and the minimum will be Rs. 2.

Q.—Under what Act do you charge these fees?

A.—Under a notification under the Land Revenue Act.

Q.—The Land Revenue Act enables you to levy mutation fee?

A.—Yes

Q.—Would you raise this fee?

A.—No, I am very much against the raising of this fee; it will only tend to discourage people from reporting such transactions and would spoil our land-records system.

Q.—You levy a patwari cess, don't you?

A.—We used to levy one before, but now we pay the pay of patwaris out of the general revenues of the Province This was done during Sir Denzil Ibbetson's time We continue to levy the lambardari cess, at five per cent.

Q.—How do you levy the lambardari cess?

A.—That is also under the Land Revenue Act.

Q.—Is the rate fixed by the Act?

A.—I do not think so, it is fixed by rule under the Act.

Q.—Is that in addition to the land revenue?

A.—Yes

Q.—To get a comparison between the different provinces in order to ascertain the amount taken in different shapes from the raiyats, we want to know the rates. The patwari is paid from the land revenue?

A.—He is paid out of general revenues The zaildari allowances are paid out of the land revenue The zaildari muafi does not exceed one per cent of the land revenue, it is paid out of the land revenue collected by the lambardar. The lambardari cess does not appear in the accounts After deducting the zaildari muafi, the land revenue is credited into the treasury.

Q.—Is land-revenue credited in gross?

A.—No, it is credited in net Jagir and muafi, that is to say, assigned land revenue is deducted before the land revenue is credited

Q.—That again has got to be credited to the land-revenue?

A.—No It is within the land-revenue head. We usually put down the net payment due to Government and the assigned land revenue in two colours of ink. The total assessment of a tahsil is so much, out of which jagir is so much and khalsa is so much The khalsa is Government land revenue. We show jagir and muafi separately. The land-revenue assessed includes jagir; out of the total assessment we say so much is jagir.

Q.—Have you any note of the basis on which you have taken this one-sixth, one tenth and so on?

A.—I am sorry, I have not got it here, but I will let you have it. It is very rough

Q.—Your payment to the patwaris is much larger than what it is in other parts?

A.—Yes, it may be, but we try to get honest men.

Dr Paranjpye. Q.—Does the lambardar get his squares free?

A.—No, he has to pay and he has to pay exactly as much as the other people pay In the colony tracts we give an extra square to the lambardar. The other people get this square on payment. The lambardar will have to pay the land revenue and cesses on this square

The President. Q.—Now I will take you to question No 99 You say there must be inequality in the payments made, as different areas are assessed at different ranges of prices and this is unavoidable?

A.—Yes

Q—Who was Dewan Sawan Mal?

A—He was a famous revenue administrator of the Punjab during Ranjit Singh's time.

Q—Is not a district settled before the rise in prices, much better off than a district settled now?

A—It is very much better off.

Q—I believe the patwari has a share in the mutation fee?

A—Yes

Q—I take you now to the question of nazul lands In southern India you have three classes of lands in a town, one, original village site which pays no land revenue, second the old agricultural land which goes on paying the original assessment, and thirdly you have land in towns which is assessed to quit rent. The variations in these charges make it difficult for the local bodies to levy higher rates of local rates or cess?

A—You are talking of municipal areas entirely

Q—Not necessarily Any area in which house and land taxes are in force?

A—That is practically our municipal towns

Q—Have you got any method of assessing land revenue on this land?

A.—I don't think we have. In areas subject to fluctuating land revenue, such as colony areas, the fluctuating land revenue is levied on the area cropped. There we have introduced a rule that when the land is purchased for building purposes, it should have to pay higher rate of land revenue fixed for the circle All our village sites are free of land-revenue, the rules of the urban areas are that they should be valued and assessed at a rate equal to 4 per cent of the land-revenue.

Q—Then you have three unequal methods of assessing the land in a town? You have the original village site which pays no rent at all, then the land which goes on paying at the agricultural rate to the end of the settlement and lastly you have the land which pays on the ground rent value In a case of that sort, should not the Local Government retire from the field and leave it to the local body concerned to levy a rate which should be equal all round so that the local body should not be hampered in charging a high rate?

A.—I am afraid that I have not considered that point

Q—The clean solution seems to be to leave the local body to get all the taxes.

A—Yes. Really we have not gone into this question. In the case of Lahore we give the municipal committee a jagir of certain lands assessed to land-revenue within municipal limits I can tell you the details of this jagir* afterwards.

Q—Regarding the incidence of land revenue you can either compare the assessment where available on soil units or compare the percentage borne by assessment to rents or annual value Have you any system of reckoning the soil units such as in the Central Provinces?

A.—We take the soil units according to the different classes of soil I am afraid I have misread the question

Q—As regards the gross and net produce have you any record of rents? Have you sufficient records to ascertain the rentals, cash rents primarily?

A—Our rents are all recorded Cash rents and kind rents also

Q—Your rents are recorded by the patwari?

A—Yes, every one of them

Q.—In the case of the occupancy tenant?

---

*As regards the Jagir paid to the Lahore Municipal Committee, I find that the only condition is that the Jagir is granted

"with the view to a strict sanitary control being exercised over portions of the environs of the City of Lahore lately inhabited"

This means the area included in Civil Lines

A.—That is the practice It is a customary rent which cannot be raised beyond a certain percentage above the land revenue.

Q—Could you give us the proportion of land-revenue to rental value?

A—We could get a complete record of the proportion of land revenue to rents.

Q.—We could however get at it by comparing these with the rack rents.

A.—Our system is different It differs from your Madras system in that way. Our half net assets is lower than what it should be and of this we only take sometimes one-third or so.

Sir Percy Thompson *Q.*—The percentage charges ought to be 50 per cent., but it is only 33 per cent

A.—I must tell you that all our settlement officers in the past have been very chary to consider high rents in their calculations, the result is our half net assets based on produce and prices is always lower than what it should be and even with that low calculation we frequently take less than half.

The President. *Q*—Can you tell us anything about the taxation on minerals?

A—I think I have already given the figures regarding the Attock Oil Company. We get Rs 1,40,000 as royalty and Rs 19,000 as acreage fee The Government of India gets as excise Rs 6,73,000 on petrol and Rs. 2,75,000 on kerosine, *plus* Rs 17,000 as income tax

Q—What is the Act under which they get the excise duty?

A—I will give you that later on

Q—I suppose you collect the chowkidari tax?

A.—We don't see it at all. It does not appear in our books at all.

Q.—Is the levy of *malba* recognised?

A—It is a customary due levied by the village and if the person refuses to pay, it has been ruled in some cases, that the village can bring a suit for the recovery of the same

Q.—*Rasad* has been abolished?

A.—Yes, it has been abolished.

Q—There is also a hearth tax mentioned in the colony manual as levied from the *janglis.*

A—I do not know anything about it. I cannot give information about it.

Dr. Hyder. *Q*—I think your land revenue demand amounted in 1918 to 452 lakhs?

A.—About that.

Q.—In 1847 it amounted to 165 lakhs? Allowing for the increase in prices, it seems to show a great enhancement in the assessment?

A.—But many of the canals were not existing then. The Lower Chenab canal, the Bari Doab canal and other canals were not in existence then. The whole of that increase is due to the increase in cultivation.

Q—Are there any districts in the Punjab where people pay land revenue out of the military pay or pension they receive, just as they did during the time of Ranjit Singh?

A.—I do not know of any.

Q—Is your land revenue demand so high in some districts, which have got very poor soil, that people have to go out and serve as soldiers in order to pay the land revenue demand?

A.—Probably you are referring to the Jhelum district I have no doubt that their pay as soldiers is helping towards meeting the land revenue demand in a few cases.

Q—They will not be able to pay it otherwise?

A—They would be; because in calculating the land revenue we do take into consideration all these factors.

Mr. P. S. SODHBANS, F.L.A.A. (Lond.), Government Certified Accountant and Editor, "Indian Accountant", Lahore, was next examined.

Written memorandum of Mr. Sodhbans.

Q. 33.—I would allow the present rates of income-tax to continue, but I will not mind increase in case of those who do not put proper exertion in earning their income, thus it would necessitate differentiation in the income of married and unmarried, and earned and unearned

Q. 34.—I would prefer the English method, and more especially the system of three years' average under the English Income Tax Law.

Q. 35.—Yes

Q. 36.—Allowances must be made after due enquiry

Q. 37.—I will repeal the super-tax, because if a proper demarcation is made between earned and unearned income, it will adequately cover the benefits enjoyed by the corporate bodies. In my opinion the super-tax hampers the growth of joint-stock enterprise which is necessary for the industrial advancement of the country.

Q. 38.—Yes, I am in favour of removal of exemption of income derived from agriculture, as the old theory of the King's ownership of the land cannot stand after the introduction of the Reforms In all the civilised countries income from agriculture is taxed under the Income Tax Law

Q. 39.—Yes, I agree with the estimate I would accept the figures worked out by Messrs Shah and Khambata

Q. 40.—The subsistence cost of those who pay income-tax must always be high, as they live in cities, but that of agriculturists is comparatively lower, as they generally inhabit villages where the wants are few Therefore, the exemption in case of professional, commercial and industrial income must be higher than that of agricultural income Regarding comparison with European countries the exemption in India is not high owing to heavy expenses due to special social customs amongst the Indians

Q. 41.—Since the passing of the Indian Income Tax Act of 1922, the tax on honesty has greatly increased instead of its removal The reproach has not been removed in spite of the growth of an accountancy profession since the passing of the Indian Companies Act of 1913 The accounts audited by professional accountants are seldom accepted by the Income-tax officers, and the instructions contained in paragraph 64 (Correction Slip No 5) of Income-tax Manual are seldom acted upon (*vide* Note in the Indian Accountant for September, 1924—pages 184-185). It has also not been removed by the introduction of central control, as the Commissioners and the Assistant Commissioners are the executive officers of the department, and as well as appellate authorities Unless the executive and judicial functions are separated, the income-tax operation will not be popular and it will continue to create discontent in the country The notes regarding the position of professional accountants under the Income Tax Act of 1922 which appeared in the Indian Accountant for October, November, 1922, and May, 1923, will be of some interest to the Committee.

Q. 42.—Yes. I agree to the standardisation of forms for agricultural income. With the advancement of education these forms will give the tax-payer reliable information regarding their net earnings, as also the impetus in making further improvements while comparing the result of the previous years.

Q. 43.—The benefits resulting to the state by the publication of rolls cannot be denied, but looking to our mentality in respect of financial matters, I am afraid lest it should be detrimental to and retard the commercial transactions amongst the various sections of the commercial community.

2. Yes, the appointment of non-official assessors and commissioners as in England would have the same beneficial result here as in that country. The assessors must be selected from the range of persons recommended by the Chambers of Commerce, trade unions, or similar associations.

Q. 44—I agree that the issuing of income-tax free securities must be discouraged, and I also agree with the argument of difference in the rate of interest. This should be discouraged further, because it locks up the capitalist's money, thus depriving the mercantile community of various advantages resulting from the active and free circulation of money.

Q. 45—In my opinion it is quite an effective way to levy special stamp duty (to be credited to taxation account) on interest coupons attached to the bearer securities.

Q. 46.—Yes.

Q. 47.—I am entirely dissatisfied with the present system of assessment on previous year's income, when there is no provision for refund for losses in the succeeding year. Yes, I would adopt three years' average system.

Mr. Sodhbans gave oral evidence as follows :—

The President *Q*.—You are an F.L.A.A. (Lond.)?

A.—Yes

Q—Will you please tell us what it means?

A.—Fellow of the London Association of Accountants.

Q—You are the Editor of the "Indian Accountant"?

A.—Yes

Sir Percy Thompson *Q*—Is the passing of an examination necessary for you to practise as an accountant?

A—Yes

Q.—What is that examination?

A.—Diploma in Accountancy held by the Government Accountancy Diploma Board at Bombay.

The President *Q*—There are surely a number of other certified accountants?

A—Before the passing of the Indian Companies Act, there were certain persons who were practising and without any further examination they were given certificates enabling them to continue as public accountants under the Act.

Sir Percy Thompson. *Q*—If any accountant misbehaves, is there any provision for taking disciplinary action?

A—There is nothing in the rules. But the Local Government of each province has got power to take disciplinary action.

Q—It is not the same as in England?

A—No

Q—What powers have the Local Government?

A.—The Local Government of each province have made their own rules under section 144 of the Indian Companies Act.

Q—Would that extend to disqualify him from acting under the Act?

A—Yes. If anybody misbehaves, the Government can disqualify him and cancel his certificate, and he is no more a public accountant

Q—Even if his certificate is so cancelled, he can do private work? For instance, he can do income tax work?

A.—Yes

Q—It is not the same as in England where if a Chartered Accountant misbehaves, his name would be struck off the rolls.

A.—I too have considered that question. We have formed an association and we are trying to have a Bill introduced in [illegible]
to our profession. It is only a question of t[illegible]
is divided It is not under one unified cor[illegible]
disciplinary action against a practising acc[illegible]

Q—Membership of an Institute is not necessary to qualify a man to practise?

A.—No If a man is a Chartered Accountant or an Incorporated Accountant, he can by right practise under the rules framed by the Government of India.

The President. Q—Under what Act?

A—Section 144 of the Companies Act.

Sir Percy Thompson Q.—You mean a member of the London Association of Accountants?

A.—I mean a member of the Society of Incorporated Accountants or of the Institute of Chartered Accountants.

Q—In answer to questions Nos. 33 and 34, you say that you would allow the present rates of income-tax to continue but you would prefer the English method and more especially the system of three years average There is a very considerable difference in the way in which income-tax is graduated in England and the way in which it is done here. Do you prefer the English method of graduation or the Indian method which involves a large number of different rates?

A.—I should like the English method as it helps the middle classes The basis under which exemptions are given in India is different from that in England. In England, for instance, the exemption is based on marriage, the number of children the man has and so on.

Q—The English system is to allow everybody a certain fixed sum free of income-tax, then give exemptions according to the nature of each case and tax the rest of his income as a whole and that is what gives graduation In this country it is done by having different rates for different sizes of income What would you prefer?

A.—I prefer the English system and I would have also different rates for earned and unearned incomes

Q—And you give also an increased allowance to married men?

A—Yes; and also for men with children.

Q—How would you make allowance for children, unless undesirable enquiries are made?

A—If the enquiries can be made in England, they can be made here too

Q—But there is a difference In England if a man claims that he has got four children, you have only to refer to the Register of Births and find out, but here there is no such thing

A—Here also we have got the Register of Births maintained by the municipalities.

Q—Is it reliable?

A.—Yes

Q.—The Income-tax Assessor could check any claim for children by reference to that Register?

A—Yes These Registers are maintained in almost all the villages and even in villages where there is no such register maintained, the people have to go and report in the nearest Registration station Further in cases where the children are being educated, it is easy But where the children are not being educated, there may be some difficulty and in such cases enquiries have to be made. When the income-tax staff can make enquiries about the private properties of a man they can also make enquiries as regards children, etc

Q—They are not so delicate as enquiries with regard to children, etc

A—I agree that our people are to some extent conservative; but with the advance of education they will realise that such enquiries are for their benefit

Q—With regard to question No 37, you say you would repeal the super-tax?

A.—Yes.

Q.—Surely there is this difference between the profits of a company and the profits of a private individual that income and super-tax is payable on the whole of the profits of a private individual or firm whereas in the case of a company the part of the profits which is put to reserve escapes income-tax

A.—That is not the case here First I want that super-tax should be removed, because it was a war measure. Moreover it affects the nascent industries. In England industries are already advanced and they can afford to compete with other countries But in India the manufacturing companies cannot compete with the foreign manufacturers. Therefore we must give some facilities to our joint stock companies and super-tax should not be imposed on them.

Q—Suppose there is an Indian manufacturer who pays the tax on the whole of his profits. Suppose I in conjunction with you start a limited company and we draw dividends. We only pay on the dividends but not on the part of profits put to reserve.

A—No, in India we pay on the whole. We pay income-tax on the net profit Super-tax is also paid on the net income The profits whether they are distributed or not are taxed At least it is so in the Punjab. In England I know this is not the case and only the dividends declared by the companies are assessed But here in India, on the net profit which is arrived at after deducting all the expenses, both income-tax and super-tax are charged.

Q—Assume that is abolished; and I do not pay anything on the profits which are put to reserve But in the case of an individual, super-tax is charged on all profits whether they are put to reserve or not But if you repeal the super-tax, what will be the result?

A—The result will be that the individual will pay tax on all the profits whereas the companies will not This may be due to the fact that the companies pay maximum rate of income tax and individuals do not

Q—In answer to questions Nos. 38 and 39, you say that you are in favour of removal of exemption of income derived from agriculture and you agree that the probable gain to the revenue thereby would be from sixteen to twenty crores of rupees How do you arrive at that figure?

A—As regards that figure, I have not myself worked it out But I consider that if the agricultural incomes are also assessed to income-tax, the revenue will increase.

Q—Do you say it is a fair thing to take the income of a cultivator to be four times the land revenue which he pays?

A.—I think it is.

Q—Do you know that if you did that, the number of people who would pay income-tax in this province would be about 2,300 on that basis?

A.—I did not calculate that. But I think that the Punjab will contribute a very big amount in this respect because here most of the people pay land revenue

Q—The point is how much the State is going to gain if this exemption is withdrawn.

A.—Messrs. Shah and Khambata have recently calculated the figure and I think it should be correct. I have not calculated it myself.

Q—With regard to question No 40, you suggest that exemptions in the case of certain classes of people must be higher than those in the case of other classes. There is another way in which you can differentiate between those classes. That is, can you not have a higher exemption limit in the case of people living in big towns where the cost of living is higher?

A.—In the case of those who will be liable to income tax under schedule (D) as it operates in England the exemption must be higher. But in the case of those coming under schedule (B), (Farmers tax) the exemption must be lower. Because living in villages is cheaper than living in towns.

Q—There might be a more comprehensive way of attaining the object. Suppose you make the exemption a little higher in large towns for all income-tax payers?

A.—It will be difficult to differentiate in that case To-day I may be living in a town and to-morrow I may be living in a village.

Q—It does not very often happen.

A—Sometimes it does happen and the Income-tax Officers will have to hunt after these people.

Q—In answer to question No. 41, you say 'Since the passing of the Indian Income tax Act of 1922 the tax on honesty has greatly increased instead of being removed' Do you mean that the revenue has increased since the passing of the Act?

A.—Yes. The returns presented by the persons concerned to the Income-tax Department are not accepted, whether they are prepared by professional accountants or not. In almost all cases the Income-tax Officers insist on the production of accounts and that is why I say that the tax on honesty has increased. They-

do not believe in these returns. In Lahore professional accountants get some facility.

Q—What was intended by that question was to ask whether the income-tax is not more carefully collected than it was before; that is, whether the amount of revenue bears a greater proportion to the true liability than it did before.

A—But before there was no such organisation and so they could not collect and now on account of a central organisation they have got a better system of collecting the tax.

Dr. Paranjpye. *Q*—But is anybody assessed more than he should be?

A.—Yes There are some people who have gone bankrupt because they were assessed more. I know of a case in Amritsar where a man was assessed more than Rs 1,00,000 and he got refund of a big amount on appeal and another man had to stop his business. During the war period he made money but subsequently he suffered loss But in the year he lost, the assessment was based on the previous year's income and the man had to close his business.

Q.—When he made a certain profit, he ought to have to set aside the necessary sum for income-tax

A—But here the people are not accustomed to the system of appropriation. It is only a question of education.

Q—These penalties will be more frequent if you adopt the system of average of the preceding three years. Because the effect of prosperity of even one year will be spread over the three years If an year of prosperity is followed by a bad year, he will have to pay more than he would pay if it were a system based on the previous year's income

A.—But we have to take into consideration what is being done in other countries In England the system is based on very good principles

Sir Percy Thompson. *Q*—As regards this point, the Royal Commission appointed in 1919 in England recommended the previous year's basis and the provision changing the three years' basis to the previous year's basis was embodied in the Bill of 1921. That is the system now which finds favour with the business community in England.

A—In that case I suggest the adjustment system which was in vogue previously to be reintroduced.

Q—Is there no provision in the Indian Income-tax Act for carrying forward losses?

A.—No I want that that system should be introduced. The Associated Chambers of Commerce recommended that system in January 1922. I know that in New Zealand the losses are carried forward and written off in the following three years.

Q.—Assuming there is a provision here in India for carrying forward losses, would you still think that the change should be to the three years' system?

A.—If the system of carrying forward losses is introduced, I do not want the three years' average system

Q—I gather from your answer to question No 41 that you would like the separation of executive from judicial functions How do you do that?

A—Now the Assistant Commissioner of Income-tax is the executive officer and he is also the appellant authority A special body of commissioners or some judicial authority may be entrusted with the hearing of appeals instead of the executive officer. For instance, I know of a case where the Assistant Commissioner passed an order and the person was assessed on the basis of that order I was interested in that case It is not desirable that the Assistant Commissioner should pass the orders as executive officer, as well as hear the appeals This is very objectionable.

Q—If it is on a point of law, you can prefer the appeal to the High Court

A—But there are very few people who can afford to go to the High Court Suppose a man who lives in a village is assessed Rs 100 or 150 He will not be able to go to the High Court. For going to the High Court he will have to spend Rs. 400 or 500.

Q—What are you going to have in its place which would not be prohibitively expensive?

A.—You can have some commissioners as in England.

Q.—Could you get unpaid commissioners?

A.—Here we may have paid commissioners. Or some local body with powers to hear income-tax appeals may be appointed.

Q—Will that not be expensive?

A.—Of course it will be expensive. But what are you to do? There must be some justice done to the tax-payer too.

Q—Your evil can be cured only at a somewhat prohibitive expense.

A.—If you consider the expenses will be high, a consulting accountant may be allowed with each commissioner because he is the man who can advise whether the assessment is good or bad.

Dr. Paranjpye *Q*—Then you would also provide for penalties for preferring frivolous appeals?

A.—Certainly; because a lot of time of the Government officers is wasted.

Q—If the appeal does not succeed, would you levy heavy fines?

A—No Because there is the question of difference of opinion Only if it is a frivolous appeal there may be such a provision and not otherwise.

Q—How many of these bodies would you have? You cannot expect them to operate over a large area.

A.—We have got in the Punjab only three Assistant Commissioners and we require only three such bodies.

Q.—You would have these independent persons whose sole duty is to hear the income-tax appeals?

A.—Yes.

The President. *Q*—Does not the Commissioner hear the appeals?

A—Generally he does not. If there is any question of law involved, the appeal will go to the High Court.

Sir Percy Thompson *Q*—Take the case of Amritsar where a certain person had to stop business Would the board have helped, if one was in existence? Because he was assessed entirely in accordance with law.

A.—Certainly the members of the board on personal knowledge will be considerate and all cases are not in accordance with law.

Q—Do you think that under the present system there is a substantial injustice done to the tax-payer?

A—I have got a memorandum here which had been prepared by the income-tax assessees of Ambala. Their grievances are under several heads. They say that so far as appeals are concerned, they are not properly attended to; because the same gentleman who is an executive officer of the department will always try to protect his subordinates.

Q—In answer to question No. 44, you say that you agree that the issuing of income tax free securities must be discouraged. Government has to borrow money. If it does not borrow by means of income tax free securities, it will have to borrow by other securities at higher rates of interest. The money should be forthcoming all the same. When the rate of interest is favourable this money will be withdrawn from the mercantile community all the same. So the investment of money for purposes of trade does not depend upon the Government of India issuing securities free of income tax or subject to income-tax. Once the Government wants money it must get it. It is immaterial whether it gets it by means of securities which are free of income-tax or by means of securities subject to it. If you want to discourage commercial men from subscribing to Government securities, I am afraid you cannot do it.

A.—I am not speaking from the point of view of Government. If Government offers a higher rate of interest, people will naturally buy those securities.

Q.—But the money will be equally withdrawn from trade

A.—Of course.

27th January 1925.

Lahore.

PRESENT

Sir CHARLES TODHUNTER, K.C.S.I., I.C.S., President.

Sir BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan

Sir PERCY THOMPSON, K.B.E., C.B.

Dr. R. P. PARANJPYE

Dr. L. K. HYDER, M.L.A.

Mr. J. G. BEAZLEY, I.C.S., Secretary, Government of the Punjab, Transferred Departments, was examined.

Written memorandum of Mr. Beazley.

Q. 19 (Supplementary)*.—Figures for the last two years are as follows:—

Year.	Water-tax	Income from sale of water.	Total income	Expenditure on establishment and maintenance	Difference between income and expenditure.
	Rs	Rs	Rs.	Rs	Rs
1922-23	83,114	5,17,192	6,00,306	6,32,258	—31,952
1923-24	1,62,371	4,78,761	7,41,132	7,05,125	+36,007

With regard to these figures it must be explained that no credit is taken on the income side for water supplied for municipal services such as road-watering, while on the other hand expenditure on establishment and maintenance includes no charges on account of depreciation and interest.

Q. 31 (1) (Supplementary).—All persons who pay a profession tax imposed by district boards probably also pay the *chowkidari* tax, but the converse is not true.

Q. 103 (Supplementary).—As regards nazul land, in the past Government have generally made over land to local bodies free for some definite purpose and subject to resumption if no longer required for that purpose, or have simply made over the use of land without specifying any purpose. In both cases the power of alienation has been reserved and the sale proceeds when land has been sold have gone to Government unless specially assigned to the local body. In this way Government have preserved the unearned increment on the value of the land. It has now been decided that if a small area of land is required for a definite purpose and there is no apparent prospect of an increase in its value it should be sold outright to the local body requiring it. If, however, there is any chance of the local body speculating in the land it is to be made over as before only for a definite purpose subject to resumption when no longer required for that purpose.

* The reference is to a supplementary questionnaire sent to the Punjab Government.

Q. 106—As regards national or onerous services the criterion of ability to pay may be accepted, but as regards local or beneficial services the measure of the benefits received can not be accepted as the criterion in backward areas in need of economic and intellectual development until the benefits received begin to produce an economic return

Q. 107.—(*a*) For the present the powers given are on the whole sufficient and no extension is called for.

(*b*) No. Local bodies should be left to exercise their own discretion.

Q. 107 (Supplementary)—(*a*) The construction and management of pounds has been handed over to local bodies entirely, and they are allowed to retain any net income obtainable from this source

No income derived from fisheries is handed over to local bodies.

As regards tolls, other than tolls imposed as taxes under sub-clause (*d*) of clause (1) of section 61 of the Punjab Municipal Act, 1911, *vide* reply to question (*f*) IV forwarded with the Punjab Government letter No. 2435-S. B., dated 1st August 1924. Local bodies have not been permitted except in one instance to impose tolls.

The taxation of motor vehicles as such, apart from the taxation involved in the registration fee payable under the Indian Motor Vehicles Act, has only recently been taken up by the Punjab Government, and no question has arisen as to the transfer to local bodies of the proceeds of such taxation. The taxation imposed by the Act recently passed by the Punjab Legislative Council is in aid of general provincial revenues and there is no proposal to transfer the proceeds to local bodies. On the other hand Government have not interfered to prevent the taxation of motor vehicles by local bodies by means of their ordinary powers of taxing or licensing vehicles

(*b*) So far as the revenue derived by local bodies under these heads is concerned there has been no earmarking of it for expenditure on the services concerned.

(*c*) No application for sanction to the imposition of an entertainments tax has been received by Government and the question whether it is a tax which may suitably be levied by local bodies has never been considered.

Q—(*f*) *III—Taxes on Vehicles and animals.*

(Questionnaire issued with letter No. 1299-F., dated the 20th May 1924, by the Government of India, Finance Department.)

(1) Yes.

(2), (3) and (4). It is difficult, if not impossible, to formulate a theory of taxation in respect of these matters which would meet all circumstances Question (3) for example might be answered either way. On the one hand it might be said that animals and vehicles used for agricultural purposes should be exempted on the ground that they are among the tools of the agriculturist's craft On the other hand it may be said that animals and vehicles used for agricultural purposes wear out a municipal road just as much as animals and vehicles used for other purposes: so also with regard to question (4) while it might be equitable to let off wide tyres lightly on the ground that they do less injury to roads, if it were necessary to raise a particular sum by means of this tax and there were no vehicles which did not possess wide tyres it would be impossible to exempt them.

Q 108—(*a*) As to octroi *vide* reply to question No. 109. The house-tax is satisfactory in towns of comparatively recent growth, as it is assessed on annual value and the annual value of the house that a man occupies is a fair indication of his taxable capacity in such towns. In some ancient towns, however, this criterion may be fallacious as old and decayed families continue to live in ancestral houses of an annual value out of proportion to their means.

As to land cess *vide* reply to question No 161.

(*b*) Where possible octroi should be replaced by terminal tax, but it should not be discontinued when local conditions make such replacement impracticable. The other taxes should not be discontinued.

Q 108 (Supplementary)—(1) The articles taxed are approximately the same in all cases and in no place there is any attempt made to limit the tax to a small number of articles Most of the schedules impose heavier rates on luxuries than on necessities.

(2) There can be no question of the tax being shifted back to the importer when it is paid by him in the first instance, but in so far as the consumer is unable to reduce his consumption the importer is able to shift the tax on to him.

(3) *Vide* reply to part (*a*) of question No. 109 submitted with the Punjab Government letter No 1633-L. S. G., dated 20th January 1925

(4) (*a*) *Vide* reply to question No. *I* (V) (*c*) (2) forwarded with the Punjab Government letter No. 2435-S. B , dated 1st August 1924.

(*b*) Probably, judging from the complaints so constantly heard as to the exactions of octroi establishments

Q 109.—(*a*) The criticism may be accepted as correct to this extent that octroi is inconvenient, clumsy and costly in collection and that its incidence is heavy upon the poor, it is not true that it is levied mostly upon necessaries as the articles usually exempted are but few and it is levied on necessaries and luxuries alike, though it is true that by far the greater part of the income realised is realised from the tax on necessaries The number of persons paying the tax on necessaries is however very much larger than the number of persons paying on other articles and such other articles are invariably taxed at a higher rate. It could not therefore be said except after an elaborate examination of family budgets whether in fact the burden of the tax is distributed in proportion to the benefits gained by local expenditure or not.

(*b*) Terminal tax in this province being invariably assessed on weight and not on value its assessment is simpler than the assessment of octroi, and this and the fact that the procedure for obtaining refunds has not to be gone through make this tax less of an inconvenience and obstruction to trade. When the tax is assessed on railborne goods only, its collection also is cheaper and easier. For the rest the tax is open to the same criticism as octroi

(*c*) No, except as regards octroi on goods imported by parcel post at Lahore

Q 110—(*a*) Dislike of direct taxation which has to be paid in lump sums and is difficult to evade

(*b*) Yes

Q. 111.—(*a*) No.

(*b*) This presumably refers to toll-gates on the same road. The minimum distance between toll-gates must depend on topographical conditions, the rates of toll imposed, the amount of other taxation in force in the area concerned and other local conditions, so that no reply of any value can be given to this question.

Q. 112—(*a*) It is right that the owner should pay a part, as his property and therefore his rent presumably benefit from the activities of the local body in whose jurisdiction the property is situated

(*b*) It depends on local conditions whether the owner can shift the burden of the tax on to the occupier In places where there is keen competition for houses or land he is probably able to do so

Q. 112 (*Supplementary*)—(1) The tax originally 3 per cent subsequently reduced to 1½ per cent on the sale price of immovable properties is realised by the Registrar at the time of registration of sale deeds In consequence of the enhancement of the stamp duty on sales of immovable properties in urban areas it has been decided that this tax should be discontinued with effect from the 1st of March 1925

(2) In only one case was the tax on houses and lands withdrawn. The tax had originally been imposed on the buildings in a market which had grown up outside the octroi limits, and the tax was cancelled on the substitution for octroi of a terminal tax, the limits of which were coterminous with the limits of the municipality

(3) In practice the value of buildings as distinct from the value of the site is not distinguished in assessing the tax on buildings and this is the case even in Simla where both building and site are taxed separately

(4) (*a*) Clerks are employed under the direction of the Secretary who after making enquiries as to rent, etc , compile assessment lists which are checked by members and after being approved by the committee are published for objections They are then corrected again, if necessary, in the light of the objections received

(*b*) This part of the question is not understood as appeals against assessments lie to Commissioners or Deputy Commissioners

Q 113.—In view of the intense dislike of taxation and unwillingness displayed by local bodies to impose taxation, the limits imposed by law on the rates at which local taxation may be raised are regarded rather as protecting local bodies from the demands made upon them by Government departments than as limiting the freedom of local bodies There is at present no reason for considering that these limits drive local bodies to have recourse to other less defensible forms of taxation, nor on the other hand is there any reason from the administrative point of view why the limits should be retained as there is little chance of local bodies imposing taxation to an undesirable extent

Q. 114—Exemption when granted is granted to individuals for a year at a time: there is no exception of houses of less than a specified annual value

Q. 115—This matter has been considered by Government only in connection with urban assessments of land revenue The question is a purely academic one at present so far as the Local Self-Government Department is concerned and no reply can be given

Q. 116—There is no profession tax in the correct sense of the term levied in the Punjab. The Punjab Municipal Act, 1911, before its amendment in 1923 authorised the imposition of a tax on persons practising any profession or art or carrying on any trade or calling, and this power has been used in notified areas to impose a species of income-tax on the residents, the tax being given a legal colouring by being notified as a tax on "persons practising any profession or carrying on any trade or calling" This example has been followed more recently in the case of the so-called *haisyat* tax imposed by district boards The tax has been found to be difficult of assessment, and in the case of district boards of collection also

(*b*) and (*c*) No remarks

Q. 116 (*Supplementary*).—List of the district boards that have imposed profession (or *haisyat*) tax

Name of district board.	Rates showing minimum and maximum	
	Minimum	Maximum.
	per annum	per annum
1. Attock	2	20
2 Rohtak	2	6
3 Karnal	2	15
4 Dera Ghazi Khan	2	20
5 Shahpur	2	20
6 Amritsar	2	20
7 Muzaffargarh	2	20
8. Ambala	2	6
9. Lahore	2	6
10. Mianwali	7	40
11. Jhang	2	15
12. Ludhiana	2	20
13. Gurgaon	1	20
14 Hoshiarpur	4	20
15. Gujranwala	2	30
16. Jhelum	1	20
17. Gurdaspur	4	30
18. Rawalpindi	1	20
19. Jullundar	2	20
20. Sialkot	2	30
21. Hissar	2	50
22 Kangra	1	30

(*b*) The primary collection by means of lambardars is possible without the aid of the land revenue staff, but the collection of arrears is *only possible* through the Collector, arrears being recoverable as arrears of land revenue under section 70 of the Punjab District Boards Act, 1883.

(c) At present no charge other than the 5 per cent to the lambardar is made for the collection of the local rate, which is a tax imposed not by district boards but directly by the Punjab District Boards Act, 1883.

(2) The assessment is not made by lambardars.

(3) The statement that "in municipalities this form of taxation is now practically extinct" in the reply to question (f) II forwarded with the Punjab Government letter No. 2435-S B., dated 1st August 1924 was misleading. The tax never was imposed to any considerable extent in municipalities It is now in force in six municipalities, in five of which it has been imposed since 1915.

Q. 117.—Grants-in-aid should be given for specific purposes and not as general subventions to local revenues The amount of the subsidy should be calculated in proportion to the importance from the provincial point of view of the service to be aided and to the extent to which the local body has exploited the taxable or other revenue producing capacity of the area within its jurisdiction.

Q 117 (Supplementary)—(1) No more satisfactory alternative can be suggested

(2) (a) It has been impossible to obtain figures in the short period available.

(b) Is not understood, 50 per cent of the cost of the municipal roads is not paid for by the general taxpayer.

Q 118—Such stimulus does exist and tends to increase, and as it increases the extent of Government control can be decreased In the matter of education local bodies are exerting themselves strenuously and their electorates are also vigilant.

Q. 160—Yes, further revenues must come from what are really additions to the income-tax which local bodies impose in the form of a business or profession or *haisyat* tax.

Q. 161—(a) The present system is only unsatisfactory in so far as the land revenue system itself is unsatisfactory in that it distinguishes between the rich and poor only in the actual amount taken from them and not in the proportion of their respective incomes that it takes It thus pinches the poor man unduly, and any further extension of the system seems undesirable

(b) *Vide* reply to question No 113.

Q 167.—It is not quite clear what is intended by this statement So far as the Punjab is concerned the principles upon which assessments of buildings and land are to be made are laid down by statute and provision is made for appeals to Government officers against assessments If "central control of the process of assessment" means this, then the statement is applicable to the conditions in this province and such control should not be relaxed If, however, the statement means that the actual assessment of such taxes should be made by an agency of the Central Government then the statement is not applicable, as such a central agency would certainly be extremely expensive and it is doubtful whether it would be more efficient than the existing local agencies

Q 168 (Supplementary)—(2) (a) The general revenue staff assist the administration of Local Self Government—

(i) in virtue of the powers of control and supervision conferred upon Commissioners and Deputy Commissioners by the various local Government Acts

(ii) in so far as Deputy Commissioners, Extra Assistant Commissioners and Tahsildars are appointed members of local bodies.

(b) It is not contemplated that local bodies should ever be free from the supervision and control of Commissioners and Deputy Commissioners, but it is hoped eventually to withdraw entirely the official element among the members of local bodies

Q 171—The expression "desirability of independence of electorates and central control" is somewhat cryptic It is difficult to see how electorates come into the matter at all, while as regards central control *vide* reply to question No 167 If it is implied that the tax collecting agencies of local bodies are influenced in the discharge of their duties by the fear of offending members of the local body or the desire to conciliate them or their friends, then it may be admitted that a central agency being independent of the whims of the members of the local authority might prove more efficient to this extent

Mr. Beazley gave oral evidence as follows :—

The President. Q—You are the Secretary for Transferred Departments? What are those Departments, please?

A.—I am the Secretary for the Transferred Departments of Local Self-Government, Medical and Public Health.

Q—These replies are your personal opinion or that of the Local Government?

A.—The reply to the first set of questions is the reply of the Ministry, but the supplementary replies I had no time to submit to the Minister for approval.

Sir Percy Thompson. Q—With regard to your answer to supplementary question No 19, you say roughly speaking the income from the water tax and sale of water covers the expenditure. You don't take any credit on the income side for water supplied for municipal services, while you take expenditure on establishment, etc., and no charges on account of depreciation and interest?

A.—Yes, the income from water-tax and sale of water roughly covers the expenditure, but the latter includes nothing for depreciation, etc.

Q.—What about the balance?

A.—The balance comes out of the general municipal revenues In a resolution which was issued in this week's gazette by the Local Self-Government Department of the Ministry, the Minister has agreed to the view that in any productive scheme like water-supply, etc., administrative sanction should not be accorded unless the local body concerned pledges itself to raise sufficient funds to cover charges on account of maintenance, depreciation and interest.

Q—What about the old schemes?

A.—We have not yet laid down any policy with regard to the old schemes.

Q—How do you give the grants for education?

A.—On the basis of number of students and qualifications of teachers, etc.

The President. Q—Can a municipality levy an educational cess?

A.—No.

Q—Do they get any subsidies for general purposes?

A.—No.

Sir Percy Thompson. Q—Do you give to the local bodies subsidies for general purposes?

A.—We give subsidies to the District Boards for general purposes.

The President. Q.—What proportion do you give for the initial cost of a scheme?

A.—In the past the Government orders to the Sanitary Board were that not more than 50 per cent of the cost of a work should be given and this was interpreted as meaning that ordinarily 50 per cent. should be given. This has now been set right by recent orders.

Q—The Government gives a loan for half of the work, and part of the maintenance?

A.—Not for maintenance.

Sir Percy Thompson. Q—Would you mind telling us what is a chaukidari tax?

A.—The chaukidari tax depends upon the number of chaukidars to be maintained in a village This is fixed at one per so many houses; the Deputy Commissioner then assesses on the land revenue of the whole village the amount payable on account of the number of chaukidars required. The amount thus arrived at is distributed among all the villagers whether they pay land-revenue or not.

Dr Hyder. Q—Under what Act is this tax levied?

A.—It is levied under the Punjab Laws Act.

The President. Q—How do you do it in case of a small village with a large number of houses and a big village with a smaller number of houses? Who makes the distribution of the amount?

A.—It would be a rare thing for a small village to contain a large number of houses The distribution is made by the Deputy Commissioner on the reports of the Tahsildars, etc.

Q—Who determines what each household should pay?

A—The Deputy Commissioner himself does it.

Q—How much?

A.—It varies in different districts according to the Deputy Commissioner's estimates.

Sir Percy Thompson *Q*—As between the two people living in houses of different sizes, what would they have to pay?

A.—In Lyallpur there is a fixed rate for shop-keepers, while Zamindars pay according to the quantity of their land

Q—Then it becomes a profession tax?

A.—To some extent, though it is a very small sum

Dr Paranjpye *Q*—Can you tell us the amount of chaukidari tax for a small shop-keeper?

A—Perhaps Rs. 2 a year. I cannot say exactly what it is It does not concern the Local Self-Government Department branch I am only speaking from my recollection.

The President. *Q*—It does not appear in any accounts?

A—I think it appears in a personal ledger of the Deputy Commissioner at the Treasury.

Sir Percy Thompson *Q*—Practically speaking, land is a free gift to the municipality?

A—Yes

The President *Q*—You have the old village site in a municipality which is free of land-revenue, and there will be some cultivable land which pays at the rate for the agricultural land, and you have also other land which is assessed to ground rent, practically to rack rent You may have a village site which pays nothing, another, agricultural land, which pays Rs 5 and another, ground rent land, which pays Rs 10. the local body can only tax Rs. 10 as ground rent with the result that instead of getting Rs 60 they get only Rs 50

A.—I do not think this practice exists in the Punjab. My experience relates chiefly to colony districts

Q.—In colony districts it does not exist, you mean?

A.—They have a separate urban assessment

Q—Can you introduce an urban assessment in the course of settlement?

A.—I think that is one of the terms of settlement. If land is used for building purposes it becomes liable to urban assessment under the Land Revenue Act.

Q—Would you like to give up the assessment of these lands and give to the local bodies the full power of assessing which they cannot have so long as proprietors pay land revenue?

A—I am sorry I cannot answer this.

Q.—Do you think that it will be a good thing to allow a municipality to have the land tax?

A—In old towns it would be possible, but in colony tracts it would be very difficult because values increase so enormously.

Q—In 20 years hence that would enable them to abolish octroi and substitute a tax on lands and houses?

A—It would give the colony towns an advantage at the expense of the general taxpayer.

Sir Percy Thompson. *Q*—The total value in a new town which might be developing would not be greater than in the old developed towns. Would it?

A—To a very great extent it would There is a place in which land is worth as much as Rs 20,000. The absolute value of the land in colony towns is greater than in non-colony towns.

Q.—Take Lahore, you call it an old town, and take a new colony town; would land be more valuable than in Lahore?

A.—Not very much I think. I am not acquainted with the value of the lands in Lahore. I think the values in Lahore, which is very exceptional, are almost the same as in colony towns

Q.—With regard to question No 106, you say that the criterion of ability to pay may be accepted, but as regards local or beneficial services the measure of the benefits received cannot be accepted What test would you apply, would you apply the test of ability to pay?

A.—I suppose so. The reply in this case has come from the Ministry.

Q.—Then with regard to the powers of taxation, you say that for the present the powers given are on the whole sufficient and no extension is called for. Do you mean by that that the funds raised by taxation are sufficient?

A.—No The number of municipalities in which there is a house tax is very small and the number in which there is a water-tax is even smaller.

Q.—Can you impose any other tax than what is stated in the Scheduled Taxes Rules?

A.—Yes: the Scheduled Taxes Rules do not prevent the imposition of other taxes with the consent of the Governor-General in Council

The President. *Q.*—Your Act is rather peculiar, you allow everything in the Scheduled Taxes Rules, but you would not allow a district board if it wished to abolish the road cess?

A.—No, there is no road cess; there is only the local cess, which is a cess imposed by the Act and not by district boards

Q.—But in some European countries they lay down a rule that the local bodies shall levy such and such a tax and others are optional

A.—In the case of district boards the local cess is compulsory, to that extent the main tax is imperative

Q.—But there is option between house-tax and octroi in a municipality?

A.—Yes

Q.—If a municipality wants a water supply, but says that water tax is unjust, is the water tax imperative?

A.—We are trying to make it compulsory

Dr Hyder. *Q.*—With regard to octroi, terminal tax, etc, the local bodies have to take the previous sanction of the Local Government. I should like to know why it is so. Is it the fear that they may undertake unprofitable expenditure and so on?

A.—No. I do not think so So far as I can make out the distinction between taxes that may be imposed with sanction and taxes that require no sanction represents no general policy.

The President. *Q.*—You find no difficulties in the management of pounds by the local bodies?

A.—None, they are managed to a great extent through the Police.

Dr. Paranjpye. *Q.*—The Police send the cattle to the pounds and the local bodies feed them and recover the profits?

A.—Private individuals send cattle to the pound too

The President. *Q.*—Then, it is, in practice, a subsidy to the local body? There is a net profit?

A.—But the local body also does a certain amount of work, it sees the pound is properly kept up and feeds the animals, etc.

Q.—Then as regards fisheries, you say, no income is handed over to the local bodies?

A.—Yes.

Q.—There are hardly any tolls in the Punjab?

A.—Yes, except one in Rawalpindi which is imposed by the district board; there is no other toll levied by a local body.

Q.—Then you have a lot of ferries?

A.—Yes.

Q—They are really managed by local bodies, but they don't use the profits for building bridges?

A.—They are managed by the local bodies. I don't think they use the profits for building bridges.

Q—I think there is a profit on it?

A—I think there is

Q—They give these out on contract?

A.—As a rule.

Q.—Regarding motor-vehicles?

A—This question has not arisen until lately when a provincial tax was imposed and the matter is in rather a confused state at present.

Q—Have you got any entertainments tax in the Punjab. Sometime ago we remember to have seen in the papers that the Lahore Municipality was going to impose this tax. Can you tell us at what stage it is?

A—The Municipality formulated the proposals and then published them for public criticism, but they never sent them to Government for scrutiny, I suppose because they received too many objections to the scheme.

Q—Have you considered whether it is a proper source of income for local bodies?

A.—We have had no opportunity to consider the proposal as to whether it is a proper source of income for local bodies or not

Q.—Does it come under the scheduled taxes?

A.—It requires the previous sanction of the Governor General in Council. It is not scheduled as a tax which a local body may impose, nor can the Local Government sanction the imposition of such a tax Anyway it never came up before this Government for consideration.

Q—You say that apart from the taxation involved in vehicle registration fees no question has arisen as to the transfer to local bodies of the proceeds of such taxation But confusion has arisen about this registration, part of the work being done by the Police The local bodies take taxation on ordinary vehicles?

A—There is no distinction.

Q—The numbering, etc, is done by the Municipality?

A.—Yes. The Municipal Committee registers and numbers vehicles for hire. The Police have nothing to do with it Everything is done by the Municipal Committee

Sir Percy Thompson Q—Do you think really that there is a very strong objection to the house tax in Northern India? In Southern India practically the whole of the revenue is raised by house tax? What is it due to? Is it a general objection to direct taxation or any particular objection to the house tax?

A—I think it is a general objection to direct taxation I am unable to explain why there is no such complaint in the south of India, but so far as I know, there is resentment against the house tax in these parts

Dr. Hyder Q—In your book dealing with sub-section 161 (*a*), you say only 14 municipalities have cared to levy the house tax, and this fact shows that people are opposed to direct taxation

A.—The views expressed in my book are my private views written many years ago As representing the Ministry of the Punjab Government, I do not want to reassert them here

Sir Percy Thompson Q—Do you think that house-tax is a fairer tax than octroi?

A—Yes, certainly

Q.—Is there any pressure put by the Provincial Government to raise the rate of this house tax?

A—No.

Dr Hyder Q—In case of salt and other excisable articles, I think the local body cannot levy octroi duties, but can impose a terminal tax What is the reason for that, exemption in one case and allowance in the other?

A.—I have already expressed my personal opinion on this. There is no reason for it. I cannot discover any, except perhaps a historical accident. There is no reason for imposing the tax in one case and not in another.

The President. Q—With regard to supplementary question No. 108, there is rather a mistake. It is, "Is the tax shifted by the importer". Do you think the producer gets less for his produce than he ought to get because of the existence of the octroi? In other words is the country paying for the town?

A.—It must to a certain extent, but it is impossible to judge to what extent it is.

Sir Percy Thompson Q—You think probably some indirect levies are also made by the staff?

A—Yes, judging from the complaints so constantly heard as to the exactions of octroi establishments.

Q—What are the advantages of terminal tax over octroi? Surely a refund system involves less of a tax on transit?

A.—One of the most difficult things is this refund system To get a refund from a municipality involves a most lengthy process. There is much corruption also in this. As I have said octroi should be discontinued wherever possible. I have found people always against refunds

Q.—Terminal tax is also a tax on trade, is there any objection to it from the administrative point of view?

A—When terminal tax is assessed on rail borne goods only its collection is cheaper and easier Terminal tax is levied on weight and not *ad valorem* and so gives less room for corruption. The merits of the terminal tax over octroi are purely administrative

The President. Q—You mean terminal tax does not vary on articles?

A.—No, always on weight and not *ad valorem*

Q—I suppose *ad valorem* rates assist evasion?

A.—Yes.

Q—In your answer to (c) of question 109, you say that it is not true that the octroi duty is liable to be extensively evaded What is your experience?

A.—I mean that Government have received no such complaints

Q—In your answer to the next question you say that one of the reasons urged against direct taxation is that it has to be paid in lump sums and is difficult to evade?

A.—Yes.

The Maharajadhiraja Bahadur of Burdwan. Q—Is octroi very unpopular here?

A.—Yes, owing to the trouble involved in its administration.

The President. Q.—What about the pilgrim tax; have you got it in many places?

A.—Pilgrim tax is only levied in one place. It is a surcharge on railway tickets collected from persons coming from outside a certain radius

Dr. Paranjpye. Q—Are there many places of pilgrimage in the Punjab?

A.—There are not many places of all-India importance Kurukshetra is the only place where the pilgrim tax is levied. I may also explain that the whole of the money is devoted to the cleaning, repairing, etc, of the sacred tank.

The President. Q—In the case of direct taxes, say house-tax, who does the assessment?

A—The Municipal Committee does it.

Q—You do not assist the municipality through an Extra Assistant Commissioner?

A.—No.

Q—Is it because the municipality does this work that it is very unpopular?

A—I can't answer the question.

Sir Percy Thompson. Q—Is it not quite wrong that the tax should be paid by the owner of the house who may be a non municipal resident altogether?

A.—How? The value of the property and so the rent is increased by the activities of the local body.

Q—What I say is this The inhabitants of the town pay to a municipality because they get the benefit from the municipality Why should an owner pay the municipality when he does not receive any benefit?

A.—He gets an increased rent owing to the benefits given by the Municipal Committee Thus indirectly he benefits from the municipality. But for the municipal administration, the value of an owner's property would not increase, and it is because of this value he gets an additional rent also

Q—Suppose I am in a house where there is no water and I go to a house where there is water I pay for it because I want water. There is no reason why the landlord should pay for it The owner does not benefit at all?

A.—Very rarely the owner actually pays All these taxes are generally added to the rent In my own experience in Simla the house tax is paid in addition to the rents. House tax is imposed in a few towns in this Province, and in almost all the cases it is paid by the occupier

Q—Would it not be better to collect it from the occupier?

A—In many cases the Municipal Committee does not know who the occupier of a house is. The occupier may be changing frequently And then who is to pay if there are 3 or 4 occupiers?

Q—In England there is no such difficulty felt; we always collect from the occupiers

A.—In a place like Delhi and other places it will be very difficult to collect from the occupiers who change frequently

Q—Is there any provision in your Act allowing the owners to pass on the tax to the occupiers?

A—No

The President *Q*—There is no exemption for house taxes, even for the smallest houses paying one rupee a month?

A—There is no such exemption theoretically. But in practice some persons are exempted.

Q—You say there is an appeal?

A—Yes, there is an appeal to the Deputy Commissioner and Commissioner. The appeal is against assessment, he can reduce, but he cannot raise the assessment

Q—Don't you think a provision of that sort would be salutary? Powers of revising the taxes or exempting, generally vetoing of assessment under the general powers?

A.—I think so

Q—Do you surcharge the municipalities?

A.—No

Q—The tax on transfers of immovable property has been abolished in urban areas Have you got any varying stamp duty for transfer of property in towns and in villages?

A—We have just passed an Act in the local Council enhancing the stamp duty on transfers in urban areas

Q—But then, the municipality has lost the tax that it levied on the registration? Can you tell us how much it is?

A.—I am sorry I cannot tell you; stamp duty has nothing to do with my department.

Sir Percy Thompson *Q*—The stamp duty has been raised, and the tax levied by the municipality has been abolished Has not the municipality objected to this?

A—The municipalities have not yet objected We gave an undertaking in the Council that the municipalities would not be allowed to tax transfers also. Some of the members who were residents of Amritsar and Jullunder had objected to the double taxation, I think We have asked the municipality what they propose to substitute for it

The President. *Q*—Can you tell me under what section of the Act that tax was imposed?

A.—It is with the previous sanction of the Governor-General-in-Council "any other tax" under section 61 (3).

Q.—I do not quite understand one provision about the tax on houses and lands Except in Simla, can you levy either on the house or on the lands or on both?

A.—There is nothing in the first part of clause (*a*) of sub-section (1) of section 61 to prevent it though later the proviso seems to imply that it cannot be levied on both The Act is badly drafted.

Q.—In every other Act it is on the holding?

A.—I do not know.

Q.—Would you assess agricultural lands which fall within the municipal area?

A.—No, not to house tax.

Q.—Don't you get cases very much on the margin? You might have a small garden house with a great deal of land attached. Would you tax that?

A.—I don't think there is anything to prevent it legally.

Sir Percy Thompson. Q.—With regard to Q 114, under what circumstances is exemption granted to individuals? Is it on account of poverty or something of that sort?

A.—Yes.

Dr. Paranjpye. Q.—With regard to Q. 116, we were told that there was some difficulty about the levy of profession tax, that it was not legal and so forth. Can you tell us what that is?

A.—There were two difficulties in connection with the profession tax. In the first place it was held by the High Court that the consent of the Governor-General was necessary for the tax in notified areas. Secondly, it was held when a tahsildar was assessed and a suit was brought against him for the recovery of the amount, that a Government servant was not exercising a profession.

Sir Percy Thompson. Q.—I see it stated in reply elsewhere that the assessments to the profession tax are revised by the Deputy Commissioner. Does he have access to the income-tax assessments himself?

A.—The agency is entirely separate.

Q.—But would there be any objection—and would it meet the case—if he had access to the assessment?

A.—I can see no objection, but the income-tax authorities might object.

Q.—Would that alternative be satisfactory for the local authorities?

A.—Yes; most satisfactory from the point of view of the local bodies

The President. Q.—What would be the effect of asking the income-tax authorities to tax all incomes down to Rs 500 and to hand over the income collected between Rs 500 and Rs 2 000 to the local bodies? Would it be more satisfactory than the present system?

A.—I think it would probably produce more income, but it might not be more satisfactory to the people concerned.

Q.—How?

A.—The prying of income-tax officers into their affairs would be resented more than enquiries by local committees appointed for the different parts of the district by the district board

Q.—Does it not put rather an undesirable power in the hands of the local bodies?

A.—I do not think so The assessment has to be confirmed by the Deputy Commissioner and there is a right of appeal to the Commissioner

Q.—What is the section that covers this subject?

A.—Section 30 of the District Boards Act

Q.—Is it not indeed rather extraordinary to have the profession tax in the rural areas and not in the urban areas?

A.—It is not extraordinary when you consider the reason for it

Q.—What is the reason?

A.—It is simply to make the non agriculturist living in villages pay something to the district board revenues when he is benefited by the hospitals, roads, schools, etc.

Q—You say, 'the tax has been found to be difficult of assessment, and in the case of district boards of collection also'. Now two years ago the Government suggested that the district boards might employ Extra Assistant Commissioners and several of them have done so Don't you think it desirable to go a step further and make it over to the Income-tax Department?

A—I don't think the Minister for Education would approve of that but I cannot say

Sir Percy Thompson Q—What do the 'minimum' and 'maximum' mean in your note?

A—Rs 2 per annum on incomes of Rs 200 per annum, Rs. 3 per annum on incomes of Rs 300 per annum and so on

Q—In the case of incomes above Rs 2,000, all that the Income-tax Department would have to do is to give a list of people paying income-tax.

A—All that would be necessary for the Income-tax Department to do would be to give a list of income tax payers and this is what we asked for in the correspondence with the Government of India

The President Q—With regard [illegible] No. 117 [illegible] difficulty is to ascertain the proportion [illegible] provinces pays for local administration [illegible] by subsidies to total income, we get [illegible] vary from place to place Can you suggest any better way of getting at the proportion than taking the actual cost of the services and taking the percentage borne to that by the local taxation?

A—In the very short time I have had to think about these questions, I have been unable to think of an alternative

Q—You say in your original answers '50 per cent of the cost of the municipal roads'

A—No We said 50 miles and not 50 per cent This refers to the parts of the Grand Trunk Road which pass through municipal limits

Q—'Special assessment' is another phrase for a betterment tax on unearned increment You have not begun to impose any such tax through any of your local bodies so far?

A—Not at all

Q—With regard to Q 161, you say 'The present system is only unsatisfactory in so far as the land revenue system itself is unsatisfactory, in that it distinguishes between the rich and poor only in the actual amount taken from them and not in the proportion of their respective incomes that it takes'. Have you any remedy for that?

A—I cannot think of any.

Q—In reply to Q 167, you say 'So far as the Punjab is concerned the principles upon which assessments of buildings and land are to be made are laid down by statute' What is the statute you refer to?

A—The Municipal Act, section 3

Q—In Calcutta it is done by the executive officer and the local body has no control over the assessment at all On the other hand, your provision for appeals is peculiar to the Punjab?

A—I do not know.

Q—You say that the central agency would be extremely expensive Would the assessment by, say, an Extra Assistant Commissioner be better?

A—We were not thinking merely of the employment of a Government officer: we thought you meant setting up a regular central agency for assessment

Q—That has been the case with us We deputed a deputy collector to a municipality and the result was an enormous increase in the assessment. He is paid for many times over.

A—I personally would prefer the assessment by an officer deputed and it would certainly pay.

Q—You still think that Commissioners and Deputy Commissioners should have control over local bodies?

A—Yes

Q—Do they now form a considerable number in these bodies?

A—All district boards except one have the Deputy Commissioner as their chairman at present

Q.—Have you any audit staff?

A.—We have our audit staff but no power of surcharge

MR. OWEN ROBERTS, of Messrs. Clements, Robson and Co., Lahore, was next examined.

Written memorandum of Mr. Owen Roberts.

My business is connected with the purchasing of food-grains and has led to my devoting considerable attention to the question of agricultural statistics, and I wish to avail myself of the opportunity of once again drawing attention to the very severe blow dealt to this subject by the discontinuance of the Reports on Inland Trade This is referred to Annexure A, question No. 1, Part II (*d*), *Statistics of Trade*.

Any consideration of this subject to be serious must include more than three factors mentioned in para 2 (*a*) *General*, Annexure A. Of the three factors mentioned there, one alone, namely, the first, is reliable, and it is only by adding to those three factors, the two factors of population and trade figures (imports and exports) that any reliable check on estimates can be instituted.

At present a special Committee, on which I have the honour to be serving, is considering this subject of prices and crop forecasts, and it may serve to explain my meaning if I attach to this a copy of a note put up to this Committee

2 *Prices* —In so far as the data relate to prices of food-grains, they are utterly worthless, the systems of collection being to blame The present system might have answered during the time of Akbar, when even interprovincial trade on its present scale, much less international, trade was unknown The results under present conditions a [illegible] 'hem can have little or no value' [illegible] recommended to the Government [illegible] ed on returns known to be above [illegible] ne.

Instances, illustrating the untrustworthiness of the present returns, could be quoted from any of the three provinces with which I am intimately connected in Northern India.

3 The above remarks cover all that can usefully be put forward on matters with which my business is directly connected Before concluding this note, however, I am tempted to put forward certain observations on what appears to me to be the injustice inflicted on provincial Governments by the present system of taxation

Land revenue is the principal source of income and on its merits this stands discredited.

Theoretically, it is founded on the assumption that the State is entitled to 50 per cent of the producer's surplus, and this is commuted to a cash basis at rates fixed during periodical assessments

Practically, the 50 per cent basis has been reduced to 33⅓ per cent, and it is now under consideration that it shall be further reduced to 25 per cent, and an examination of the prices fixed for commutation will show that they are all far below the value of the articles at current market rates

Here again the tax is one unsuited to modern conditions. The fact that the theoretical percentage due to the State has had to be lowered speaks for itself, and the system of assessing commutation values for a period of years is not one which can possibly be applied on any scale that would be just to both the producer and Government, with the consequence that Government faces a definite loss rather than inflict injustice on the payer. The principal source of provincial revenue, therefore, can only be regarded as discredited in theory and impossible in application because of the inelasticity of its application.

I make these observations with a view to show the position of helplessness to which the province is reduced in order to emphasize the added injustice arising out of certain forms of taxation imposed by the Central Government.

I have in mind particularly the present scale of import duties and will illustrate my meaning by taking the tax on motor cars.

In a recent Bill the Punjab Government imposed a tax of Rs 80 per annum on 4 seated cars. Take the case of a 4 seated car on which an import duty of Rs. 1,000 is levied, and it becomes apparent that the Local Government has to provide roads and other amenities for this car for 12½ years before it receives as much as the Imperial Government takes from the buyer when the car enters the country.

The whole scheme of import duties is settled on a scale for which some justification might have been claimed when the Imperial Government was responsible for provincial welfare or to put it more correctly when the provinces were merely the agent of the Central Government, but when, as now, the Provincial Government has transferred subjects for which it is entirely responsible, the system is both impossible and unjust and its results are seen in the prodigality if not waste of the more favoured departments which are retained under the Central Government directly

In this province the chief trouble is still ahead, large new areas brought under cultivation must have given appreciable increases to land revenue, and *in most cases development of these has not been carried as far as it will have* to be, and an apparent surplus has resulted enabling Government to be carried on, but when the obligation of development has been fully carried out, unless an adjustment is made with the Central Government or some unforeseen sources of revenue open up, the prospect before the province is poor indeed

Note on Crop Estimates

The outstanding defect of the present system of handling crop statistics lies in the absence of any systematic method of checking the results published in the final forecasts, and as the present opportunity may not offer again in the near future, the following notes are put up for record if the Committee feels that the suggestions made are outside the scope of the enquiry entrusted to it Before coming to the suggestions themselves, it is necessary to discuss the subject shortly on general lines

The general system hitherto followed has been to rely on data supplied to the Director of Land Records, which are massed together and then placed before the Director of Agriculture who applies corrections or modifications based presumably on independent information, when the results obtained are published and apparently treated as final

The question that occurs to one is whether it would not be possible to devise a test of the figures year by year, and it is with a view to develop this subject that this note is written

The productions and consumption of crops can be split up into the following heads :—

1. *Acreage* —This may be taken as absolute and correct
2. *Yield* —This is divided into two sections—consumption and surplus

Acreage —Of this it may be said that it can be accepted as final and accurate Slightly more detailed figures as suggested by Mr Trevaskis, dividing the acreage up into the various classes of land cultivated, would probably prove of advantage

Yield —This must always be in the nature of an estimate and it is this estimate that it is proposed to check The methods of arriving at it are probably exhausted by the employment of one of the three following methods —

(1) By a direct guess with the area under computation before one

(2) By the direct method of assuming a " normal " outturn for any given class of land and modifying the result by a seasonal factor. This method appears to me to be most misleading because any " normal " arrived at, even if the result of actual crop cutting, is not and cannot be a " normal " in the *correct sense of the word, because* the data on which it is based must themselves be subject to all the vicissitudes or advantages of the particular season or seasons from which they are derived

(3) By crop-cutting experiments on a large scale in each district annually. This would offer the best prospects of success if it could be applied to every crop in every district in a big way, but it would be too expensive.

Mr. OWEN ROBERTS, of Messrs. Clements, Robson and Co., Lahore, was next examined.

Written memorandum of Mr. Owen Roberts.

My business is connected with the purchasing of food-grains and has led to my devoting considerable attention to the question of agricultural statistics, and I wish to avail myself of the opportunity of once again drawing attention to the very severe blow dealt to this subject by the discontinuance of the Reports on Inland Trade. This is referred to Annexure A, question No 1, Part II (*d*), *Statistics of Trade*.

Any consideration of this subject to be serious must include more than three factors mentioned in para 2 (*a*) *General*, Annexure A Of the three factors mentioned there, one alone, namely, the first, is reliable, and it is only by adding to those three factors, the two factors of population and trade figures (imports and exports) that any reliable check on estimates can be instituted

At present a special Committee, on which I have the honour to be serving, is considering this subject of prices and crop forecasts, and it may serve to explain my meaning if I attach to this a copy of a note put up to this Committee

2 *Prices*—In so far as the data relate to prices of food-grains, they are utterly worthless, the systems of collection being to blame The present system might have answered during the time of Akbar, when even interprovincial trade on its present scale, much less international, trade was unknown. The results under present conditions are useless, and therefore any deductions from them can have little or no value A revised system of collating these data is being recommended to the Government of this province and with proper checks, based on returns known to be above suspicion, the results should be valuable in time

Instances, illustrating the untrustworthiness of the present returns, could be quoted from any of the three provinces with which I am intimately connected in Northern India

3. The above remarks cover all that can usefully be put forward on matters with which my business is directly connected. Before concluding this note, however, I am tempted to put forward certain observations on what appears to me to be the injustice inflicted on provincial Governments by the present system of taxation

Land revenue is the principal source of income and on its merits this stands discredited.

Theoretically, it is founded on the assumption that the State is entitled to 50 per cent of the producer's surplus, and this is commuted to a cash basis at rates fixed during periodical assessments

Practically, the 50 per cent basis has been reduced to 33⅓ per cent, and it is now under consideration that it shall be further reduced to 25 per cent, and an examination of the prices fixed for commutation will show that they are all far below the value of the articles at current market rates

Here again the tax is one unsuited to modern conditions The fact that the theoretical percentage due to the State has had to be lowered speaks for itself, and the system of assessing commutation values for a period of years is not one which can possibly be applied on any scale that would be just to both the producer and Government, with the consequence that Government faces a definite loss rather than inflict injustice on the payer. The principal source of provincial revenue, therefore, can only be regarded as discredited in theory and impossible in application because of the inelasticity of its application

I make these observations with a view to show the position of helplessness to which the province is reduced in order to emphasize the added injustice arising out of certain forms of taxation imposed by the Central Government

I have in mind particularly the present scale of import duties and will illustrate my meaning by taking the tax on motor cars.

Dr. Paranjpye Q.—What about the seasonal factor?

A.—My second note deals with the subject fully. It is a question of how to check the seasonal figure

Q.—You say that the crop cutting experiment is the best?

A.—Yes. If you have statistics of the population and the area and find that given certain conditions a certain area can export a certain quantity, then you will have some definite data to go on.

Dr. Hyder. Q.—Whether you call it a normal or average yield, suppose there have been crop-cutting experiments for 20 years and you eliminate the seasonal factor. Then how are you going to estimate the variation from the average?

A.—My second note deals with that point fully If you take a set of crop-cutting experiments spread over the province and the next year or five years later you get a given set of conditions in a particular area and the outturn is estimated to be a certain figure, this figure could be checked against similar experiments in the same year and you will have a check on the variation. At present you have none This must be done systematically every year in certain districts.

Q.—You will have these figures by districts?

A.—I would not commit myself to that It is a matter to be settled by the agricultural people But in whatever way you do it, whether by districts or divisions, the result will be the same. At present it is done by districts

Dr. Paranjpye Q.—How would you estimate the crop which is consumed in the district?

A.—By deducting from the estimated production the actual exports by rail from the district.

Dr. Hyder Q.—How will you take into consideration the storing of grain?

A.—It is not practised now to the same extent as it was before the war. You now find the stocks cleared out periodically.

The President. Q.—Do you find the existing official estimates of crops to be excessive or the reverse?

A.—They were fairly reliable till the last few years But during the last few years it has been difficult to read any meaning into them

Q.—You do not agree with the Chamber of Commerce which always adds 25 per cent to these estimates?

A.—No

Q.—You don't find them underestimated?

A.—I should say that for the last year or two they have been overestimated

Q.—You say something about commutation prices Do you find the prices in the official returns generally above or below the market rates?

A.—They are generally well below the market rates But the system of recording prices is defective Last year the value of wheat at the harvest time in Lyallpur was reported at Rs 4-4 a maund in villages when it could not possibly have been more than Rs 3-8 I do not know how they got at this figure

Dr. Paranjpye Q.—So that will have the effect of increasing the revenue?

A.—I suppose it would have I may point out that the rates given in this return I have with regard to Lyallpur district are very high. But the rates were never applied. The revision never took place at those rates Again take Jullundur for example. The price of wheat put down here is 38 seers per rupee in 1914 But actually it was much higher.

The President Q.—They take the average of the last 20 non-famine years?

A.—I do not know what it is The commutation prices are far below the prices at present ruling.

Q.—Even at the commutation rate, it is very low?

A.—Yes. It does not represent the market value.

Q—You say that the 50 per cent basis has been reduced to 33⅓ and it is under consideration that it should be further reduced to 25 per cent and an examination of the prices fixed for commutation will show that they are all far below the value of the articles at current market rates. So that altogether what is taken as land revenue forms only a fraction of the surplus?

A—I do not know what fraction it represents. But to try and prove that it is based on a definite principle seems to be out of the question

Q—It is not what it purports to be?

A—No I do not think it is anything like what it purports to be.

Q—What is it then?

A.—I should call it rent.

Q—Government is taking what it can from the people?

A.—Yes; it comes to that There seems to be an inherent admission to that effect. You start on some basis; you say you take 50 per cent of a certain thing, then you say you will take 33 per cent; and finally the result is you are taking what you can get.

Sir Percy Thompson. *Q*—Supposing you take 50 per cent of the surplus?

A.—I should call it a heavy payment I take it that this 50 per cent is charged on his net assets, *i.e.*, after allowing for his reasonable expenses and cost of production

Q—What is the rent in England?

A.—A case was given me the other day of a man who bought a farm of 200 acres and who gets £75 by way of rent. That is the most he can get for it.

Q.—My point is that you find the charge to the cultivating tenant very much higher in the case of lands that are let on rent to the tenant A man voluntarily takes some lands from a landlord and pays a certain rent The land revenue he pays for land of a similar quality similarly situated would be very much less If a man voluntarily takes lands and pays a private person a higher rent than he is to pay to the Government, how is this land revenue excessive?

A.—The fact remains that Government cannot call this a tax on the basis on which they have started.

Q—Why do you say that?

A—I know nothing about the incidence; but there is the admission that they cannot collect 50 per cent of the produce and they have now reduced it to 33 per cent.

The President *Q*—They do not think it desirable to take so much

A.—Yes.

Sir Percy Thompson. *Q*—There has been a controversy with regard to the ownership and the shares which belong to the Government and the cultivating tenant; not that it cannot be collected.

A.—If you get the whole 50 per cent the revenue will be very well off; but they cannot get it.

The President *Q*—Have you formed any idea on what lines you can proceed to reform the system?

A.—I cannot see any lines, but I may say this I do not think that the system of fixing prices as they do it now will ever work. The system is based on a time when the crop was worth what it could fetch in the district where it was produced If you had a good crop you had cheap prices; but if it was a bad crop prices were high. In other words, the local value depended on the production These conditions do not apply to-day For instance, I may give you certain figures. The area of the wheat crop in 1922-23 was 9,573,000 acres and the price at harvest time was Rs 3-15 4 and this year the area

is 9,933 000 acres and it has been sold for delivery in June at Rs 5-2-7 Government cannot get anything like a reasonable share out of the present system of fixing commutation values The fluctuation is so enormous that I do not see how you can fix the price for a period of years

Sir Percy Thompson Q—If you fix a rent, will it be all right?

A—Yes; but not based on the market value for a period of years

Q—Rents go up when prices go up in other countries In England it is so

A—How are you going to fix a steady rate of rent based on prices subject to violent fluctuations?

Q—What it means is that at one time a man has to pay too much rent and at another time he has to pay too little An average may be taken

A—I do not know how it will work out

The President Q—What would you say to taking 1 or 2 per cent of the capital value of the land?

A—I think it would be a very good idea At any rate you get down to a system

Q—Is the capital value easier to ascertain than annual value?

A—You would have to fix what the capital value was

Q—And it will be equally subject to fluctuations in prices?

A—Yes; it will

Dr Paranjpye Q—Would a system in kind be more suitable?

A—No I had an invitation the other day asking me to bid for 2 lbs of potatoes in a village in Baluchistan 12 miles from the railway station

The President Q—On the subject of customs, have you anything to say?

A—The only reason why I referred to it is that the provincial revenues are badly off The other day the Municipal Committee here sent their tax schedule to Government in which they put Rs 4 on motor cars The whole schedule was accepted except this item and Rs 4 was reduced to Rs 2, presumably because of the heavy taxation that cars are already subjected to

Q—You consider that the recent increase in the customs schedule has in some cases gone too high?

A—I think so At any rate the provinces are looking round for money and the very high customs tariff prevents any possibility of Local Governments getting any revenue out of trade

Q—What do you say about the tax on tobacco?

A—It is appallingly high

Q—Suppose a small excise duty is levied on locally made cigarettes

A—I think it would be a good idea, but unmanufactured tobacco should be allowed in free in that case

Q—You would allow it in free and then put a tax on the manufacture? What about the unmanufactured tobacco in this country?

A—I think that that should pay a duty It is a luxury

Q—How would you levy it?

A—It would have to be levied on the acreage through the district officials.

Q—Have you anything to suggest regarding income-tax?

A—No I want to suggest that the provinces should be allowed to tax exports

Q.—You say that the 50 per cent basis has been reduced to 33⅓ and it is under consideration that it should be further reduced to 25 per cent and an examination of the prices fixed for commutation will show that they are all far below the value of the articles at current market rates So that altogether what is taken as land revenue forms only a fraction of the surplus?

A.—I do not know what fraction it represents But to try and prove that it is based on a definite principle seems to be out of the question.

Q.—It is not what it purports to be?

A—No. I do not think it is anything like what it purports to be.

Q.—What is it then?

A.—I should call it rent.

Q—Government is taking what it can from the people?

A.—Yes; it comes to that There seems to be an inherent admission to that effect. You start on some basis; you say you take 50 per cent of a certain thing; then you say you will take 33 per cent; and finally the result is you are taking what you can get.

Sir Percy Thompson. *Q*—Supposing you take 50 per cent of the surplus?

A.—I should call it a heavy payment I take it that this 50 per cent is charged on his net assets, *i e*, after allowing for his reasonable expenses and cost of production.

Q—What is the rent in England?

A—A case was given me the other day of a man who bought a farm of 200 acres and who gets £75 by way of rent. That is the most he can get for it.

Q.—My point is that you find the charge to the cultivating tenant very much higher in the case of lands that are let on rent to the tenant A man voluntarily takes some lands from a landlord and pays a certain rent The land revenue he pays for land of a similar quality similarly situated would be very much less If a man voluntarily takes lands and pays a private person a higher rent than he is to pay to the Government, how is this land revenue excessive?

A—The fact remains that Government cannot call this a tax on the basis on which they have started.

Q.—Why do you say that?

A.—I know nothing about the incidence; but there is the admission that they cannot collect 50 per cent of the produce and they have now reduced it to 33 per cent.

The President *Q*—They do not think it desirable to take so much

A.—Yes.

Sir Percy Thompson. *Q*—There has been a controversy with regard to the ownership and the shares which belong to the Government and the cultivating tenant; not that it cannot be collected.

A.—If you get the whole 50 per cent. the revenue will be very well off; but they cannot get it

The President. *Q*—Have you formed any idea on what lines you can proceed to reform the system?

A.—I cannot see any lines, but I may say this I do not think that the system of fixing prices as they do it now will ever work. The system is based on a time when the crop was worth what it could fetch in the district where it was produced. If you had a good crop you had cheap prices; but if it was a bad crop prices were high In other words, the local value depended on the production. These conditions do not apply to-day For instance, I may give you certain figures The area of the wheat crop in 1922-23 was 9,573,000 acres and the price at harvest time was Rs. 3-15-4 and this year the area

is 9,938 000 acres and it has been sold for delivery in June at Rs. 5-2-7. Government cannot get anything like a reasonable share out of the present system of fixing commutation values The fluctuation is so enormous that I do not see how you can fix the price for a period of years.

Sir Percy Thompson. *Q*—If you fix a rent, will it be all right?

A—Yes; but not based on the market value for a period of years

Q—Rents go up when prices go up in other countries In England it is so

A.—How are you going to fix a steady rate of rent based on prices subject to violent fluctuations?

Q—What it means is that at one time a man has to pay too much rent and at another time he has to pay too little An average may be taken

A—I do not know how it will work out.

The President *Q*—What would you say to taking 1 or 2 per cent of the capital value of the land?

A—I think it would be a very good idea At any rate you get down to a system

Q—Is the capital value easier to ascertain than annual value?

A—You would have to fix what the capital value was

Q—And it will be equally subject to fluctuations in prices?

A—Yes, it will

Dr Paranjpye *Q*—Would a system in kind be more suitable?

A—No I had an invitation the other day asking me to bid for 2 lbs of potatoes in a village in Baluchistan 12 miles from the railway station

The President *Q*—On the subject of customs, have you anything to say?

A—The only reason why I referred to it is that the provincial revenues are badly off The other day the Municipal Committee here sent their tax schedule to Government in which they put Rs 4 on motor cars The whole schedule was accepted except this item and Rs 4 was reduced to Rs 2, presumably because of the heavy taxation that cars are already subjected to

Q—You consider that the recent increase in the customs schedule has in some cases gone too high?

A—I think so. At any rate the provinces are looking round for money and the very high customs tariff prevents any possibility of Local Governments getting any revenue out of trade

Q—What do you say about the tax on tobacco?

A—It is appallingly high

Q—Suppose a small excise duty is levied on locally made cigarettes

A.—I think it would be a good idea, but unmanufactured tobacco should be allowed in free in that case

Q—You would allow it in free and then put a tax on the manufacture? What about the unmanufactured tobacco in this country?

A.—I think that that should pay a duty It is a luxury

Q—How would you levy it?

A—It would have to be levied on the acreage through the district officials.

Q—Have you anything to suggest regarding income-tax?

A—No I want to suggest that the provinces should be allowed to tax exports.

Q—Exports generally or particular articles?

A—Exports of selected articles.

Q—Obviously you could not allow a maritime province to tax the exports of the Punjab and take the profits

A.—No, but there is no reason why you should not tax Punjab produce going out of the Punjab The real difficulty is that I cannot see how Local Governments are to get anything out of trade

Q—If that is your difficulty, I will refer you to the chapter on the division of the proceeds (Questionnaire Q 147). What we are attempting to do is to take each tax and see which procedure is applicable Now from this point of view what do you say about income-tax?

A—That will have to be an Imperial tax

Q—Do you think it is impossible either to divide the yield or to allow the province to make an addition?

A—I do not think it is desirable to allow provinces to make any addition to the income-tax or to take any share of it from the Central Government I think that the tax on exports is one that ought to be left to the provinces

Sir Percy Thompson *Q*—With regard to export duties, surely it means that the producer here would have to produce below world prices Otherwise he cannot make a profit

A—No. If you put it at a moderate rate, it would not happen; it would be absorbed in the trading risks

Q—But taking it over a period of years, does it not follow that the producer should produce it at a price less by the tax than the world price?

A—I doubt it There are so many other factors which are to be considered I was thinking of a tax at a flat rate, say roughly at Rs 3-8-0 a ton on exports of certain selected articles. This would be too low to affect trade.

Q—Will it give very much revenue?

A.—*It will give a very useful revenue so far as this province is concerned.* In that way this province would get from 20 to 30 lakhs of rupees every year. It would give them something out of trade

The President *Q*—Where should it be collected?

A.—At every railway station, like the terminal tax

Q—Would not that result in the same consignment being taxed two or three times over? Suppose you collect a lot of wheat here and consign it to Karachi?

A—No The tax would be levied and collected at the despatching station and as the levy would only be on goods consigned outside the province, the tax would not touch the local consumer.

Sir Percy Thompson *Q*—Suppose you are an exporter; and you go round and buy wheat in the Punjab, Central Provinces and other places Then would you not pay the export tax when it came to the United Provinces and again when it came to the other province?

A—No It would be so arranged that the goods going right through would not be subject to the tax When once the tax is paid it would not be paid again, though the article might pass through different provinces, unless it happened to be unloaded and stored and reloaded.

Dr Hyder *Q*—Would you allow every province to levy the tax at its own discretion?

A.—The Government of India might lay down some general lines, about the articles that are taxable, about the rates, about the maximum that can be charged and so on, and leave it to *Provinces to tax within the limits prescribed.*

Dr. Paranjpye. Q.—Would not that practically amount to an increase in the railway rates?

A.—Not more so than a terminal tax.

Q—Would it not be much better to increase the railway rates?

A—It is a question of helping the provinces and not the railways.

Q—Do you know of any other case where there is an export tax unless there is an element of monopoly?

A—I do not know of any other case

The President Q—Would not this tax come back to the cultivator?

A—It is a very difficult thing to say If you collect two annas per maund on wheat, it will come to only between 3 and 4 per cent of the value and a fluctuation of one penny in exchange has more effect than this tax

Q—May I take it that the business community does not object to the terminal tax?

A—No, it does not hamper trade As long as it is low, it does not matter

Q—Do you put it on through traffic?

A.—In places like Lyallpur, etc, we pay it with the freight My point is this It passes on to the trader and it forms part of his risk It is a risk which he has to face just as he has to face the market risk when he stores cotton or grain

Q.—Have you read Sir Ganga Ram's proposals?

A—I have not

Q—He proposes to abolish the land revenue and to levy a tax on all produce brought to the railway stations

A—But the tax that you might have to pay may be so large that it would affect trade and it might also compromise Government's position with regard to land.

Dr Hyder Q.—May I go back to the determination of prices of wheat in Lyallpur, I want to ask a question in regard to crop forecasts You are not guided by the crop forecast in India, but in England people have to be guided by the crop forecasts here?

A.—You can take it as an absolute fact that the whole of the Indian export is insufficient to influence the European value of wheat If it cannot influence it the crop forecasts can have very little weight

Q—You say the crop forecast here is inaccurate I say the same thing applies to the crop forecasts made in America and other wheat producing countries How does the producer of wheat determine the market rate?

A—Partly by crop forecasts, but not necessarily by the Government forecasts Th[illegible] very big and they form their own opin[illegible] crop forecasts. That is a different [illegible] in wheat forecast is going to influence [illegible] supply is so small and so uncertain [illegible] terially influenced by these returns

Q—The point is this that the crop forecasts made in Canada, America and other places are also inaccurate

A.—Quite so, but the people there handle these forecasts with caution and form their opinion from their own knowledge received through their agents on the spot as well When a man is working for a series of years in this business he can attach his own value to these reports

28th January 1925.

Lahore.

PRESENT:

Sir CHARLES TODHUNTER, K C S I, I C S, President

Sir BIJAY CHAND MAHTAB, G C.I.E, K C S I., I.O M, Maharajadhiraja Bahadur of Burdwan

Sir PERCY THOMPSON, K B E, C B.

Dr R. P. PARANJPYE

Dr L K. HYDER, M L A

Mr. C. A. H. TOWNSEND, C.I.E., I.C.S., Officiating Commissioner, Jullundur Division, was examined.

Written memorandum of Mr. Townsend.

Q 1—I was for some years Director of Agriculture in this province and later Director of Civil Supplies. In these capacities I had much to do with the estimates of the production of food grains, particularly of wheat It is extremely difficult to get an accurate estimate of the total production. The figures of the *area* under any crop, in any particular harvest are, I think, accurate within one per cent But it is extremely difficult to find the outturn in maunds per acre for each crop. So important were the estimates of the wheat crop in the Punjab during the war that I used to go to Karachi before writing the final wheat forecast, and compare my estimates of the total crop with that of the principal wheat exporting firms there These firms always gave me every assistance I was glad of their views, and I think they were glad to have mine I always issued my forecast after duly considering their estimates

Statistical publications in this province have recently been diminished in that the extremely important "internal trade report," which showed the principal articles imported into or exported from the province by rail each year, was discontinued in 1923 from motives of economy. I most strongly protested against this decision when on the Board of Economic Enquiry. I understand that a proposal is now under the consideration of Government to re-introduce the report. But even if this be done, there will be an unavoidable lacuna of at least three years during which no report was issued.

Q. 15 (2)—I consider a fair commercial profit is the obvious thing to take.

Q 16—Certainly it would be impossible to take the State's portion of the increase as a lump sum It should be taken annually as a tax.

Q 17—We have, generally speaking, an admirable Tenancy Law in this province, and I see no difficulty in fitting it into these proposals.

Q 25—My reply to the second part is yes

Q 27.—Yes

Q 28—Yes

Q. 29—There is no doubt that indirect taxation is infinitely more popular in the Punjab, at any rate, than is direct taxation

I happened to be the Punjab official representative on the Assembly at Delhi in March, 1923, when the increase in the salt tax was most vigorously debated. As will be remembered, the tax was ultimately increased from Rs 1-4-0 a maund to Rs 2-8-0 a maund On return from Delhi, I reverted to my post of Director of Agriculture, and when on tour in that capacity, I made a point of enquiring wherever I went as to the price of salt in villages and whether it had risen lately much. The replies I always received were that it had risen, but nobody seemed to know or care in the least why this had happened There was a very great deal of profiteering in salt I am quite convinced that, so far as the Punjab is concerned, the increase in the salt duty two years ago was very little felt, and in brief that it is a most suitable and least obnoxious form of taxation.

Q 31—I have had a good deal to do in the last year with the "profession tax," which has now been imposed by the District Boards of all the districts of the Jullundur Division It has been assessed by the members of the District Boards themselves Many cases have come before me on appeal, and generally I consider these assessments to have been extremely badly made. I consider the profession tax far more objectionable than the salt tax Octroi is not much objected to It is in accordance with the customs of the country, but it has, in many places, been replaced by a terminal tax

Q 40—As to Income Tax, I have always most strongly objected to the exemption of incomes of less than Rs 2,000 from paying it The limit should be lowered at least one thousand rupees In this province the owner of a piece of land, however small, has to pay his share of land revenue, though it is true that in calculating that land revenue the fact that holdings are small is always taken into consideration

Q 49—I think tobacco might well be taxed But I have not considered the details as to how to assess the tax

Q 61—No One thing is very certain that if total prohibition by law is introduced in the Punjab, it will exist on paper only at any rate in the Sikh tracts Illicit distillation in such tracts is extremely great, and is, I consider, increasing It will be impossible to put it down for many years The policy of the Punjab Government in excise matters aims at the maximum of income and the minimum of consumption This I consider is right

Q 97—So far as the Punjab is concerned, my reply is no I was Settlement Officer for five years in one of the poorest districts of the province The causes which affect the prosperity of the cultivator in this province are

(1) Climatic variations, as lack of rain Generally speaking water is the "limiting factor" in Punjab agriculture

(2) Seasonal epidemics, as fever or insect attack

(3) The general range of prices prevailing

(4) And very important, the agriculturists' habit of getting into debt on marriages, funerals and other ceremonies

Q 98—It is not true that the land revenue assessment ignores the ability to pay, of the subject A perusal of any assessment report of this province will show that probably to nothing is more attention paid Nor is it true that the assessments lack the element of certainty Punjab assessments are generally now made for 30 years, so for 30 years the cultivator knows what he has to pay

I do not agree that the present system leads to more official tyranny and extortion than any other system we can think of There are of course abuses in it, but the Punjab officials are only too glad to put a stop to such abuses, when they come to their notice.

As to the time of payment of revenue, it is always most carefully considered at settlements, and the convenience of the cultivator is the first consideration in deciding it

Q 102—Certainly

Q 104—This is extremely difficult, because the produce and the value of land in different parts of India varies so enormously Nor can we be certain that the definitions of the same thing are the same in different provinces I think method No 5, that is, the percentage borne by the land revenue to gross

produce is the best suggested But even with the utmost care, I think it will be extremely difficult to arrive at a correct idea of the comparative incidence of the land revenue in different provinces So many factors in the matter are matters of opinion and not of absolute fact

Q 109—As already said, terminal tax is, at any rate, in the large towns replacing octroi the former is much easier to work as no refunds are necessary, and is generally popular

Q 111—I think, tolls are justified on roads the maintenance of which is very expensive, as in the Kangra District of this province. Not otherwise

Q 116—I have already said that my experience of the profession tax, imposed by various District Boards in my Division, has so far been very unsatisfactory

Q 120 (iv)—I am not sufficiently a financier to criticise Sir Ganga Ram's proposals from the financial aspect I observe that he criticised Settlement Officers for not suggesting the improvement of lands I think most Settlement Officers do what they can in the matter Apparently Sir Ganga Ram said that the value of the produce can be definitely increased subject to certain limitations. I regard this as an absurd over-statement I can point out tracts in this province, with which I am well acquainted, to which, owing to the nature of the country, it is impossible to extend canal irrigation, and well irrigation is impracticable, either because wells are extremely deep or contain bitter water.

I observe that Sir Ganga Ram said that the present system of land revenue was an impediment in the way of scientific agriculture I do not think there is much force in this contention. thus, land irrigated by wells generally pays more land revenue than does unirrigated land The construction of a well is certainly a step in the development of scientific agriculture I find that between 1890 and 1923 the number of pucca masonry wells in this province increased by over 45,000

While on the question of wells I refer again to question No 15 In most of the districts in my Division, such irrigation as is practised is done by wells, which are expensive to work I can see no possible reason why those cultivators, who get canal water from Government, should not pay for that water something like what it costs the hard working well cultivator to draw his water from the ground and put it on the land My own experience has shown me how the cost of canal and well cultivation differs For six years I irrigated my compound and garden with canal water, and paid less than Rs 20 twice a year to Government for the use of water I now irrigate about the same area in another place with well water, and have to pay Rs. 50 per month for its use

Apparently Sir Ganga Ram, in talking about assessment of land revenue, merely referred to irrigated land The latest published land revenue report of the Punjab for the year ending on the 30th of September, 1923, says that there was in the province then nearly five million acres of well irrigated land, nearly nine million acres of canal irrigated land and over fourteen million acres of purely rain-fed land On such land of course no water rates are assessed. I do not agree with Sir Ganga Ram that the land revenue is most unpopular. It is in accordance with the traditions of India and, if worked sympathetically, is generally collected without difficulty.

Finally he appears to regard new settlements as always involving an increase of land revenue This, though general, is far from universal. In the district I settled, my assessment in more than one assessment circle was lower than its predecessor, and in others I merely continued the assessment I found in force.

I note that Sir Ganga Ram said that the income of the present proprietors, who till with their own hands, should be exempted At least half the land in the Punjab is cultivated by its proprietors, so this proposal would involve an enormous loss of land revenue.

Q. 168—No, so far as the Punjab is concerned The lowest member of the land revenue staff is the village revenue accountant or Patwari, and he is the maid-of-all-work of the administration Apart from his ordinary recurring land revenue duties, he at intervals counts the cattle, counts the people, helps in elections, makes plans of the sites for criminal cases and does all sorts of miscellaneous work.

Mr. Townsend gave oral evidence as follows:—

The President. Q.—Mr Townsend, you are now the Commissioner of Jullundur Division?

A.—Officiating, Sir.

Q.—You have also been Director of Agriculture, and Director of Civil Supplies?

A.—Yes, in addition I was a Settlement Officer also for some years I only did one settlement, but I do not think there is any other officer in the province now who has done more than one settlement, certainly not more than two

Q.—Regarding your replies to our question No 1, I may say that we have been relieved to a very great extent by the appointment of another Committee You refer to your experience of Karachi, and compare those estimates with the estimates of the wheat crop of this province. Did your experience confirm what we have been told that the official estimates tend to pessimism?

A.—Yes. they are generally on the low side

Dr Hyder Q.—In the case of a Government commercial or semi-commercial undertaking, should the endeavour be to secure a commercial return?

A.—Yes.

Q.—How will this work out in the case of water rates? Suppose the State gives a certain amount of capital, you estimate the water rates and take into account the interest on capital and the maintenance of the canal Would you charge over and above that?

A.—Yes, certainly It is possible for Government to find the commercial value of canal water by comparing the cost of its canal with the cost of putting down wells, which are much more expensive than canals From this, Government could get an idea of the commercial value of the water it sells. I think it is only just to the tax-payer and particularly to those who do not get the benefit of canal irrigation, that these people who get State irrigation should pay a reasonable amount for the canals This would be the lower limit. The upper limit would be the cost of well irrigation, but I would not go as high as that I would like to direct your attention to my note p 94 There I talk about water rates and have given a comparison with well irrigation

The President Q.—The only point which suggests itself to me is whether cultivation under well irrigation is not generally more intensive?

A.—Very often, but not always In my present division there is a lot of well irrigation for gram, wheat, and sugarcane People certainly use wells for gardening, but large amounts of well irrigated land are used for the purposes of cotton growing and cotton is not grown largely in intensive agriculture Generally a well irrigator uses his water much more economically than a canal irrigator The rule of the Irrigation Department is that when a cultivator irrigates his field, he should use the water very carefully and economically. But this rule is much more honoured in the breach than in the observance

Sir Percy Thompson Q.—You say that the charge for water is reasonable Is that the only charge you levy?

A.—We levy land revenue in addition We charge land revenue irrespective of the supply of water, and in addition we charge for water in the case of canal-irrigated lands

Q.—Would you charge land revenue on the unirrigated value of the land also?

A.—Yes, I do not think it matters very much at present what you call it, and what amount you take from the irrigator he is concerned only with the total amount he has to pay

Q.—You charge water rate *plus* the land revenue?

A.—Yes, I do not think the existing water-rates are high enough I should certainly put on the increased rates which the Government is considering now.

Q.—What is the reason for the agitation against any increase in these rates?

A.—I should think political discontent, largely, and the fact that nobody likes to pay more to Government than he has been doing, whatever the amount that pure theory shows that he can be called upon to pay. I would not say that we should take a full commercial return: I would not go as high as that. The reason is this This province has done very well during the war, and you have also to consider that the people got their colony lands on very generous terms in the first instance; so it would be unreasonable to charge now a full commercial profit But there is no doubt that in fairness to the people of the unirrigated tracts the rates should be higher than they are at present.

The President Q.—On salt I would ask you one question You say there is a good deal of profiteering?

A—Yes, there was a good deal of profiteering during the War.

Q—Is it continuing?

A.—I have been asking many people and they say there is a lot of salt *available now There is no profiteering now. There was, but it is not now.*

Q—There is no middleman's profit?

A.—Only the usual trade profits Anybody who likes can order salt as he likes There is no monopoly in salt: when a man finds that his neighbour is making too much profit on salt, he will order salt himself

Q—He must have enough capital to buy at least two waggon loads?

A—Yes

Q—You know the price?

A—When I was Director of Civil Supplies, the tax was Rs 1 4 per maund and the price at the salt mines was Rs 1-5-9. It is not expensive, and there is no profiteering now

Q.—Have you any idea what the profit will amount to? Will it go to 200 or 300 per cent?

A—It might: I cannot say. If you like I can tell you afterwards; I cannot tell you off-hand.

Q—I have in mind Sir Ganga Ram's plan of selling salt at a uniform *price? There is no need for such a scheme in this part of the province?*

A.—No, there is no grievance about salt here.

Q—Under question No 40 speaking of income-tax, you say, that the owner of a piece of land, however small, has to pay his share of land revenue, though it is true that in calculating it the fact that holdings are small is always taken into consideration. Do you mean by it, that you graduate land revenue by giving partial exemption to the small holder?

A—It comes to that in effect In theory we are supposed to take half the net assets You have to work out what the full net assets are. in theory Government *is entitled to take half of this. If the holdings are small*, Government will take less, as small holders have less to spare than owners of large holdings.

Dr Paranjpye Q—Don't you charge so much per acre?

A—A Settlement Officer first works out what the total assessment of each *circle should be in theory: this amount is then cut down* in accordance with the agricultural conditions in each circle.

Q—Suppose a man has got 20 acres, another man has 5 acres, will you charge one-fourth of the land revenue to the second man or rather less than that?

A—You will charge the same land revenue in both the cases, if the lands lie in one village.

Q—So a man having a large holding is better off?

A.—Generally speaking we get all small holdings in one circle and all big holdings in another. To explain You may get two adjoining circles, the half

net assets of each happens to be the same: you assess one, with reasonably sized holdings, at a lakh of rupees, but on the second, where the holdings are small, the assessment imposed is only Rs 75,000

Q—I was considering not different circles, but holdings in the same circle

A.—We allow the people to decide for themselves how they will have the land revenue assessed on the village as a whole and apportioned inside the village More than half the Punjab is cultivated by small proprietors We assess the village. the people say how they wish the amount assessed to be divided inside the village Say the total assessment on a village is Rs 2,000, and half the land is irrigated and half is non-irrigated The villagers are asked whether they would like all their land, whether irrigated or unirrigated, to be assessed at the same rate if they do, we comply with their wishes We divide the total amount assessed on the village, and then assess each individual proprietor But the villagers may say that people with irrigated lands should pay double the rate per acre paid by the people with unirrigated lands. Here again their wishes are complied with Generally speaking, however, in the Punjab people with small holdings pay less per acre land revenue than people with similar land but larger holdings.

The President *Q*—This is a complete revelation to me I thought that you first begin with the soil and afterwards taking the aggregated statistics of the circle, you build up field after field until you get to the total village?

A—What I mean is this A Settlement Officer works out the assessment of each circle If possible he maintains the circles of the previous settlement The district or tahsil is divided into assessment circles, and then the half net assets of each circle are worked out.

Q.—How can you work that out except by assessment of the fields of the circles?

A—We have of course, to work up from the agricultural statistics of all the fields in each circle

Sir Percy Thompson *Q*—Do you mean this A circle consists of two thousand acres which contains a certain quality of land, and for this two thousand acres, the total sum to be paid is so much, when you get the whole of it, you do not care for the rest?

A—That is quite so

The President *Q*—May I take another point You say you send up circle by circle to Government?

A—Yes, each circle is dealt with separately

Q—Does the Government pass orders on each circle?

A—Government pass orders on the whole lot by tahsils or sub-collectorates. Each tahsil may contain three or four assessment circles

Q—You don't wait for the whole district to be finished?

A—No, Sir

Q—Through what channel does this pass to Government?

A—We had a Settlement Commissioner; that official has now been abolished It used to pass through the Settlement Commissioner, Commissioner Financial Commissioner and then to Government Now it goes to the Commissioner and Financial Commissioner only The latter issues the orders of Government

Dr Paranjpye *Q*—Does it go to the Deputy Commissioner or the Commissioner?

A—It goes to the Commissioner who generally adds a short criticism on the proposals, mainly from the political point of view

The President *Q*—You say Government approves the general assessment?

A—Yes, Government is the final authority.

Q—Don't you classify the soil?

A.—In the district I settled, the only division of soils made was into irrigated and unirrigated, well-irrigated land being shown separately from canal-irrigated land No other division was necessary.

Q—Don't you distinguish between clay, sand, etc.?

A—In many districts it is done. The reason I did not do it is because my soils were, in the main, homogeneous

Q—You arrive at your half net assets upon proved factors?

A—Yes but some of the factors are not quite proven. Absolute certainty is unattainable in them They must remain a matter of opinion

Q—Then Government may say that though you have fixed your assessment at Rs. 1,50,000, they will reduce it to Rs 1,10,000. How do you correct all your calculations of factors?

A.—Until we receive the orders of the Government, we do not divide the assessment on the different holdings If Government says, assess at 90 per cent of half the net assets, it can be done at once.

Q—You don't try to make fresh calculations?

A—No If Government says that they do not approve the half net assets of a Settlement Officer it is immaterial to him. The figures are there He carries out Government's orders In the Hissar district which I settled, I found that some *barani* lands were paying a larger proportion of their half net assets than were canal-irrigated lands In one assessment circle of a poor tahsil, Government, in my assessment, reduced the previously existing assessment: even so it took 92 per cent of the half net assets I had to fight to get the previous assessment reduced In a neighbouring circle 90 per cent of the half net assets were taken In another, Government took 91 per cent; while in a neighbouring circle which had no irrigation but better soil, they took 80 per cent. In a canal circle we only took 61 per cent of the half net assets

Q—Have you been governed by arbitrary orders regarding the amount of increase which could be taken?

A.—The Government of India used to issue arbitrary orders as to the percentages which should be taken. This made the whole calculation absurd sometimes.

Dr. Hyder *Q*—But these percentage figures relate to half net assets? We have been told by the Government that they took only 50 per cent

A—I am talking of an assessment made in 1909 I believe Government does not now, as a rule, take much more than perhaps 66 per cent or even less of half the net assets The assessments of the Punjab Government are very much less than those taken in other provinces In the United Provinces they take, I believe, a much larger proportion of the half net assets than we do here I find in Lahore and its neighbourhood the assessment is very low, it is about 25 per cent of half the net assets

The Maharajadhiraja Bahadur of Burdwan. *Q*—What is the reason for it?

A—I should think largely political reasons Also the previous assessments were probably very low, and it was impossible to raise them too much at once.

Dr Hyder. *Q*—12½ per cent of the net assets?

A.—Instead of taking 50 per cent of the half net assets, 25 per cent of them

Q—Supposing you have got a tract of the country where the rent is Rs 18 per acre and you have a similar tract with equally good soil held by peasant proprietors, would you use the figure of Rs 18 an acre in working out the half net assets?

A—No, you would not assess the peasant proprietors to the same figure as you would in the case of rent receiving landlords.

Q—Then your Rs 18 is a rack-rent?

A—In the case of sugarcane Rs. 18 is not an excessive rent. The rents the Settlement Officer works on are fair rents neither rack rents nor unduly low rents.

Q—You distinguish between rack rents and fair rents?

A.—Yes

Q.—You do not take rack-rents as fair rents?

A—No

The Maharajadhiraja Bahadur of Burdwan. Q—In India a rack-rent means an extortionate rent.

A.—We exclude such rents. There was one case of which I have made special mention where I excluded such rents I will read an extract from the Settlement Report of Hissar district which I settled "Among the former class, that is, rents excluded by me from my calculations, were rents generally occurring in *baiachara* villages, of land held by relations, dependants, priests, or by old tenants who were only paying customary rents. In the latter, I excluded from Statement XIV in accordance with the Financial Commissioner's recent orders on the subject all rents paid by mortgagers to mortgagees, but not, as such, rents paid by tenants-at-will to mortgagees all unduly high rents as those paid by *malis* and market gardeners who hold land on very high rents near Hansi and Hissar towns—nothing like such rents could be obtained for canal land outside these towns—and very high rack-rents paid in one canal village. In the Hissar tahsil an *ex*-Indian officer, a Jat, owns nearly all the village in question. He takes very high rents, 16 rupees an acre on canal land—and the tenants are all in his debt, and very depressed "

Q—Would you exclude a perfectly voluntary contract between the landlord and the tenant under which the landlord agrees to take Rs. 20 an acre?

A.—I would not exclude any rent merely because it is Rs 20 an acre If it was the common rate, I would certainly not exclude it. The rent of Rs 20 would be taken into consideration as well as those of Rs 15 the average would work out perhaps at Rs 16 I would not exclude a rent if the circumstances justified it If a new tenant comes in voluntarily and pays a rent willingly, the rent would be included We do not call such a rent a rack-rent

Q—Rack-renting is not a term of opprobrium in England at all It is a direct charge of the full annual value

The President Q—Can you tell us why Government have not abandoned the policy of charging for improvements? Why should they not give the peasants full benefit of the improvements made by them?

A—The principal agricultural improvement in the Punjab is the construction of a well for irrigation purposes. Land irrigated by new wells is exempted for some years after their construction from paying the assessment usual to well lands For the years of exemption such lands pay the assessment payable on unirrigated lands And in the Hissar district which I settled, there were not many wells, and, to encourage their construction, no additional assessment at all was put on well-irrigated lands

Q—You say agricultural wells have increased by many thousands in the Punjab of recent years?

A.—Yes

Q—Have you examined Sir Ganga Ram's proposal for a produce tax and the redemption of land revenue?

A—Of the latter I do not know much But it was tried for a short time in Northern India, under the orders of Sir Charles Wood, when Secretary of State in 1861 The Government of India published a resolution in that year on this subject In Hissar a very small amount of land revenue was redeemed under that resolution but the experiment did not go far The Government lost a good deal of money by this

Q—Have you formed any opinion on the proposal for a produce tax?

A—I am not quite sure what it is

Q—If you put a small tax on everything which goes to the railway station, you would get an equal amount of land revenue without affecting what was needed for subsistence.

A—I think the proposal will involve many difficulties when examined in detail, though that I have not yet done But one immediately suggests itself to me The Punjab is all cut up by Indian States How are you going to decide whether the produce going to a station in an Indian State comes from British territory or that State?

Q.—What about the canal areas?

A—There it may perhaps be possible

Q—As to the time of payment of revenue, you say it is always most carefully considered at settlements, and the convenience of the cultivator is the first consideration in deciding it Have you any *kist* falling at the end of the financial year?

A—No In this province the *kharif* land revenue is payable in December and January, and the *rabi* revenue is payable in June I do not think any *kist* falls at the end of the financial year.

Q—With regard to the question of arriving at the comparative incidence of the land revenue, you have suggested a comparison of the percentage borne by land revenue to gross produce Can you give us the percentage for this province?

A.—Much of the rented land pays rent in kind If it is a cash rent, it could be done. Where rent is paid as *batai*, it would be more difficult.

Q—We find great difficulty in comparing the incidence of land revenue for different provinces If we get the incidence on rental value, that might help us Would it involve any great work to compile it?

A—I think it could be done Enough material exists in assessment reports. I think two or three experienced Deputy Collectors could do it if given sufficient time.

Q—Would it be very expensive?

A.—Of course it would cost something, but I think it would be worth it.

Q—You cannot suggest any better way?

A—No, Sir

Q—You say illicit distillation in Sikh tracts is exceedingly great and is increasing You also say that it will be impossible to put it down for many years We have seen the Excise Reports for over 20 years and we find the same story repeated again and again Is there any hope of getting rid of it?

A—Not under the present system of Government, because the Council declines to sanction any increase in the number of liquor shops The Sikhs in this province are but badly educated, and they are the principal people who are addicted to drink. If they do not get licit liquor they get illicit liquor. Every Sikh village in the Central Punjab resorts to illicit distillation. It is getting better now, but until the number of shops is increased, the situation cannot be much improved.

Q—What is the effect of this on the country-side? Does illicit drinking lead to lawlessness?

A.—Yes, it is very great It leads to grave disorders, murder and outrages of every kind It is a crying evil.

Q—Is it correct that a man has to go 15 miles to get licit drink?

A.—It may be so

Q—Would you recommend a strong independent staff?

A—Certainly. We have a special Excise staff, but it should be very largely increased, and moreover petty restrictions should not be imposed on the licensees Another great difficulty arises from the large number of Indian States in the province, because often the would be drinker need only go some 2 or 3 miles to an Indian State, and drink as much as he wants at much less expense than would be possible in the Punjab.

Q—You say octroi is unpopular, have you not got any means of getting rid of it?

A.—I don't think that in the present state of the Punjáb it is possible to substitute any tax for octroi, but terminal tax is gradually being substituted for octroi in many places It seems to be more popular than octroi. My own impression is that the collection of terminal tax is much easier than of octroi. People, generally speaking, do not like direct taxation.

Q—Would you like terminal tax to be levied by District Boards?

A.—No. There would be a clash all over the place between the Municipalities and the District Boards How are you going to make the District Boards levy the terminal tax?

Q—At the railway stations?

A.—I do not think it is possible.

Q—The Railway Company will collect the tax for the District Boards?

A.—Possibly

Q.—If you attempt to introduce house tax or profession tax, will it lead to riots?

A.—Not riots, but it will lead to grave discontent Most of the municipalities are now inefficiently controlled If municipalities wanted to introduce these taxes it would mean that they had at any rate some section of public opinion behind them in the matter In all municipalities in my Division except in one there are non-official Presidents It would be impossible for a municipality to give effect to these measures without a strong majority behind it At present no municipality in my Division would have such a majority

Q—Is it not a fact that the present effect of your taxation is that octroi, chaukidari, haisiyat, etc, all hit the poor man, whereas the rich men owning several houses are left untaxed?

A—I think so

Q—There is no remedy for it?

A—I am afraid not, in the present state of public opinion in the Punjab it is not yet sufficiently advanced

Q—Would it be impossible to enforce such taxation by a section in the Act?

A—Hardly The average municipality, as at present constituted, would find it very difficult to give effect to the measure Most of the members are house-owners themselves Moreover, it is the desire of Government not to interfere too much with local bodies and to allow them to develop on their own lines

Q.—From what you say it appears that the poor man cannot raise his voice?

A—Yes

Q—Government say in the District Board Act, that a road cess must be imposed You would not approve a similar injunction as regards any tax in municipalities?

A—I do not think so. If you put a provision in the law that a municipality should levy house tax, I think there would be trouble

Q—Although the house property in towns escapes in many cases house tax and other taxes?

A—Yes Of course it is very unfair

Q—Can you give us an idea of the cost of collection of land revenue?

A—Not off hand but I think it could be worked out

Q—Do you consider one-fourth of his time is spent on the collection of land revenue by a tahsildar?

A—About that

Q—What about patwaris? How much time do they spend on the collection of land revenue? If you did not collect land revenue, would you require patwaris?

A—A patwari spends but little of his time in the collection of land revenue Even if you had permanent settlement you would still require patwaris. They are responsible for the proper maintenance of the extremely important record of rights of each village, which shows the rights of every land owner and

occupancy tenant in the village It is the peasant's sheet anchor in disputes as to land, which are extremely common, and must be maintained

Q—I think the patwari does some work with regard to crop reports?

A.—Yes, they do much useful work other than mere land revenue collection.

Q—What is the actual work the patwari does with regard to the collection of land revenue?

A—He only, at the time of payment of each instalment of land revenue, gives the lambardars, or headmen, of each village lists showing the amount of land revenue payable from each land owner On canal lands the Irrigation Department have their own patwaris.

Q—Is there need for the two?

A.—The experiment of amalgamating the two in the Western Jumna Canal in the Ambala Division is now being tried I do not know how far it has succeeded The revenue patwari works with the Collector, and the canal patwari works with the Canal Engineer

Q—Have you considered the possibility of having a tax on the unimproved capital value of the land as in New Zealand?

A—I do not think it would be possible We know the value of the land from the statistical return of sales, of course the sale price of land is one of the many factors taken into consideration at framing new assessments It is a very important factor

Q—Would it be simpler to take one per cent of the value of the land instead of a proportion of the net assets, which involves prolonged calculation at each settlement? Suppose Government fixed a uniform rate of one per cent of the capital value?

A—I would hesitate to reply to this question off-hand.

Q—Would it not simplify the process of settlement if you could have fixed land revenue on a percentage of the capital value?

A.—If you could get a reliable valuation it would certainly simplify matters: but I do not think you could work on it alone

Sir Percy Thompson *Q*—Could you tell me if this definition approximately corresponds to your conception of the net assets; if not, in what respects it differs?

"The annual value shall be understood to be: (1) the amount of the rent by the year at which they are let, if they are let at rack-rent, and the amount of that rent has been fixed by agreement commencing with the period of seven years preceding the fifth day of April next before the time of making the assessment, or (2) if they are not let at a rack-rent so fixed then the rack-rent at which they are worth to be let by the year."

A—Please see the instructions on the subject in the Punjab Settlement Manual They are as follows:—"The net assets of an estate or a group of *estates means the estimated average annual surplus produce of each estate* or group of estates remaining after deduction of the ordinary expenses of cultivation", and so on. We ascertain the expenses of cultivation mainly from *rents. If the man gets a rent of one rupee an acre and the tenant* who cultivates the land is able to live on the balance produced by the land, in theory Government is entitled to As 8 or half of the landholder's rent As a rule we do not go into elaborate calculations of cost of ploughing, etc, but of course they are taken into consideration

Dr. Hyder. *Q*—You have not got many landholders in the Punjab who let the land on rent. How are you going to find out the rent for a particular piece of land?

A.—In nearly every district there are, at any rate, a few landowners who let their land on rent; and these cases, as a rule, give us sufficient data to find out the half net assets. But many other factors than rents are considered in deciding what the half net assets of each circle are, though rents are much the most important factors

Professor W. H. MYLES, M.A., the University of the Punjab, Lahore, was next examined.

Written memorandum of Professor Myles.

Q. 1.—The Punjab is essentially an agricultural Province Any estimate of its wealth must therefore be dependent on the accuracy of its agricultural statistics It is generally acknowledged that the estimates of areas sown are on the whole fairly reliable, the final figures reported after *Girdawari* correspond on the whole so closely with the estimated areas shown in the first forecast that the existing method of reporting areas may be accepted as satisfactory It is not so with the estimate of outturns The figures of outturn are compiled by the Tahsil Kanungo for each Tahsil, collected by the Sadar Kanungo for each District, and forwarded by the latter to the Director of Land Records, who in his turn transmits the totals to the Director of Agriculture, who may alter them if he so desires Thus the basis of outturn figures are the anticipations of not very skilled officers at the Tahsil headquarters who are not in touch with the actual cultivators

These figures may be useful for comparative purposes as the error may be presumed to be more or less constant, but *absolutely* the error may be very considerable.

In an article on "Wheat Forecasts in the Punjab", Mr Trevaskis, Director of Land Records, Punjab, makes the assumption that "the actual outturn is between the official figures and an amount 33 per cent in excess of that" (*Vide* Agricultural Journal of India, Vol XIX, Part III, May 1924)

This probable error here makes any approximation to accuracy impossible; for example, it seems impossible to put the average consumption of food grains in the Punjab within a smaller limit than 0 55 seers to 0 7 seers per head (*cf* Trevaskis, *ibid*, p 248), and different estimates vary as widely as 0 50 seers to 1 0 seers

Q 3—I agree that such figures as make possible the framing of estimates of national incomes for such a country as England are largely lacking in the case of India and that for the following reasons —

(*a*) Firstly, we have no estate duties, and our income-tax returns, at least until very recently are less accurate,

(*b*) Secondly, India is essentially an agricultural country and the exemption from income-tax of income derived from agriculture renders the income-tax figures less useful for the framing of such an estimate For agricultural incomes one would be thrown back on some arbitrary multiple of land revenue,

(*c*) Thirdly, a very considerable portion of the national income of India is comprised of incomes below the Rs 2,000 level, and so far as these are concerned the income-tax returns give no information,

(*d*) So far as the classes with fixed incomes are concerned the income tax returns no doubt give information that is comparatively accurate, but I very much doubt, if in the case of the trading and commercial classes, the accuracy of the returns is at all comparable with that in the case of the English income-tax returns It certainly was not so until very recently

Q 4—*Improvements in Statistics*—A Committee has been considering this subject in the Punjab Among their principal recommendations are—(*a*) Have the returns of outturn made by the Patwari, who is more in touch with the people than the Tahsil Kanungo, or at least use the figures supplied by the Patwari as a check on those of the Kanungo It has been recommended that an experiment should be made on these lines, with one or two of the principal crops, *e.g*, wheat and cotton Patwaris will be given post cards with instructions to fill them in by a certain date and despatch to the Sadar Kanungo who will be responsible for their transmission direct to the Director of Land Records with

a statement showing the name of any Patwari whose returns have not been received A comparison of the figures compiled from the Patwari's post-cards by the Director of Land Records, with the figures submitted by the Sadar Kanungo, will give an approximation to the error in the figures of outturns as at present collected Even the Patwari, however, will be more inclined to under-estimate them than to over-estimate.

(*b*) The methods of crop-cutting experiments are usually unreliable, and it is suggested that an extended trial should be given to crop cutting experiments on numerous but small plots

(*c*) The present method of collecting wholesale prices is unsatisfactory. What is required is not Government rates, but the *actual* figures at which the grains changed hands at the Mandis It is recommended that the most satisfactory way of obtaining a list of wholesale prices would be to decide the principal markets of the Province for each of the more important crops, and then solicit the assistance of firms dealing in these Mandis to supply the figures at which business had actually been transacted on a given date, or the average price for a given period Personally I am doubtful if this voluntary method will be successful, and I have recommended in its place the registration of Mandis, making one of the conditions of registration the keeping and publishing of a weekly record of prices In this way there will be a double advantage—(*a*) Government will secure a report of the wholesale prices which it desires; (*b*) publicity is one of the safest checks against speculation.

Q 6—Do not consider such legislation necessary for the Punjab

(1) In the Punjab, Government is one of the largest employers of both manual and clerical labour. These statistics could be secured without legislation

(2) *Vide* (*c*) above

Q 8—Additions :—

(1) Trevaskis : "Wheat Forecasts in the Punjab". Agricultural Journal of India, Vol XIX, Pt III, May 1924

(2) Trevaskis : "Distributive Co operation in the Punjab". Agricultural Journal of India

(3) Fagan, Sir Patrick : "Agricultural Rent and Land Revenue" (Simla-Punjab Government Branch Printing Press, 1921)

(4) Fagan, Sir Patrick : "Land Revenue : Its Origin and Development, with special reference to the Punjab". (Simla Punjab Government Printing Press, 1921.)

I have no hesitation in saying that the inquiries mentioned are utterly inadequate to form the basis of an estimate of the incidence of taxation on different classes. They are neither sufficiently numerous nor sufficiently representative There are the greatest variations in the 33,000 villages of the Punjab, and until much more systematic inquiry has been made into these, no generalisations of any value can be made To illustrate this point I may mention that the Board of Economic Inquiry, Punjab, agreed to undertake an investigation in the Rawalpindi district, and the member-in charge of that investigation reported at once that in that district alone it would be necessary to undertake a survey of three villages of different types : (1) a village in the plains; (2) a sub montane village; and (3) a village in the hills

The only process I can suggest is a slow and laborious one It will involve a very large number of intensive inquiries of the economics of villages of different types The Board of Economic Inquiry, Punjab, has outlined a five years' programme of work to make a survey on the lines of a general questionnaire of one village in each of the 29 districts in the Province The completion of this programme is dependent on [illegible] and prospects are none too rosy. At [illegible] not sufficient, 6 such inquiries have been [illegible] Lyallpur, Amritsar and Rohtak distric[illegible] carried on systematically, then in the [illegible] the Indian Taxation Committee desires may be beginning to be available

Q 9—One classification to which I refer with reluctance but which does not in my opinion receive the consideration it requires is that between the Indian and the European section of the community *e.g.*, Rs. 2,000 exemption from income-tax. An European with Rs 166 per month would die while his Indian brother would be comparatively well-off Or take tobacco

Q 13—Here it is necessary to postulate two cases—(*a*) Where Government performs and also allow private undertakings to compete,

(*b*) Where Government performs but forbids private enterprise to compete

In (*a*) no element of tax is likely to appear. If Government prices are higher than those of private enterprise, people will consume the goods turned out by the latter

(*b*) If Government possesses a monopoly the margin between the cost of production and the price fixed by Government may be very much greater than under competitive conditions without any element of tax appearing Where the law of increasing return applies rapidly, as for example in railway and canal enterprises, the cost of production may be very much less under monopolistic than under competitive conditions A price therefore which will give a "commercial return"—I borrow your phrase—under competitive conditions may give much more under monopoly conditions, but I do not consider that it would be correct to say that the extra is of the nature of a tax It might even be that, though Government fixed the price which would give the maximum monopoly revenue, no element of tax might be present *cf* working arrangements in the case of railways, shipping rings, trusts, etc In my opinion the element of tax would emerge when Government through the exercise of its power or monopoly fixed a price higher than that which would have prevailed under competitive conditions, then the extra would be of the nature of a tax

Further, before one can say whether the aim should be to secure (*a*) a bare return, (*b*) a commercial return or (*c*) a monopoly profit, it seems necessary to postulate the circumstance of time and place (*a*) In some circumstances it might be sound economic policy to supply the commodity to begin with at a price that would not even give a bare return on the capital invested, certainly at less than would give a commercial return In other words, it might be advisable to give a bounty on the consumption of the commodity for a certain time to familiarise the community with the commodity (*cf* quinine) In early days of canal irrigation in the Punjab when the new areas were practically desert and far from attractive to settlers who had to be brought from other districts, I believe this principle figured largely in the minds of the administrators of the period (*cf* Trevaskis "Land of the Five Rivers") But though at one stage this policy may be wise it does not follow that it should be continued for ever Once the community has been familiarised with the commodity the policy of encouraging consumption by the fixation of a low price may be departed from, and a price may then be fixed which will go a long way to recoup the losses made in the early stages Though the ultimate aim be to secure the maximum monopoly profit, when a long view is taken it may be wise to sell very cheaply to begin with

Q 15—Whether the charge for water supplied for irrigation is adequate or not depends upon whom you ask *cf.* recent Council debates in the Punjab My own contention is that in the Punjab even with the recent increase in the rates (Rs 65 lakhs) the rate charged is much too low

(*a*) *Although water is supplied by Government and although practically a monopoly*—(it is impossible in the same area for wells to compete with canal water at its present rate)—what is paid must be regarded as a *price* In the more developed colony areas nothing approximating to the value of the water is taken by Government, and—(subject to an important proviso on page 106)—I believe that Government might, with advantage to itself and to the community, raise its rates very considerably

(*b*) The provision of water at very cheap rates is most inequitable to the zamindar who owing to geographical circumstances must cultivate by means of wells, *cf* Jullundur district With the rise of prices that has taken place in the last 20 years, the cost of water from wells has gone up 2 or 3 times. In my opinion the zamindar in the well irrigating areas has a legitimate "grouse" when he sees his more fortunate canal irrigating brother getting water at little more than the old rates.

(c) Considering the great rise in prices which has taken place and the period of acute financial stringency that the Punjab Government has been going through, I find it extremely difficult to justify the belated and half-hearted measure which Government has adopted. We read "In twenty years owing to greatly diminished value of money in proportion to commodities and to the cost of labour the working expenses per acre irrigated have risen by 37 per cent on the Western Jumna, by 9 per cent. on the Sirhind, by 37 per cent in Upper Bari Doab, by 48 per cent in the Lower Chenab, and by 59 per cent in the Lower Jhelum Canal". In spite of these figures Government can screw its courage no further than an increase in the rates to yield some 17 per cent additional. I have already pointed out that the conditions which existed when canal irrigation was first introduced were such as to lead to the water being sold on particularly advantageous terms. These old rates have now been *made more advantageous and this must exercise a considerable* influence on the zamindar cultivating in the well-irrigating and *barani* tracts.

You ask *on what principles the water rate is fixed?* The principle which prevailed in the earlier days has been referred to above. In the recent revision we have been told that "a broad principle" has been followed. Subject to one exception—some of the important commercial crops—Government "has abstained from prescribing for any crop upon any canal a water rate higher than that which has already for some years past been paid for that particular crop upon some one (or more than one) of the eight canals concerned". I should have called this the application of a "rule of thumb" method rather than the recognition of a "broad principle".

It seems to me that when revision of the water rates in the Province was taken up, that revision should have been thorough.

I consider it a mistake that the water rates were not raised *at least* by enough to cover the increased cost of production—a produce basis might have been considered (*cf.* The Teind system in Scotland).

The problem of water rates is closely bound up with the present political situation in the Province. The rural community believes that it is being taxed more than its fair share, and one of the *most urgent problems* facing the Committee is to devise means for getting more effectively at the trading and commercial classes. Until this is done my sympathy is with the zamindar. I believe the history of direct taxation in India since 1860 to be a confession of failure to get at that class. Hence I should recommend the separation of the development services in the Provincial Budget (*cf.* railway finance in the Imperial Budget). I am aware that this is a reversion to more ancient ideals of taxation, *particular taxes for particular purposes. Profits from, say,* the sale of water should be utilized for the purposes of further development *in rural areas.* One of our great needs is improvement in the means of communication, we are particularly lacking in good roads. I should admit, if necessary, education and co-operation. Get the idea—the zamindar is to pay more but he, and not his town brother, is to get more. If this policy were adopted, there would be less of a howl against an increase of the water rates. If a charge can be brought against British financial administration in India, it is that of under-taxation and under-expenditure for development purposes. I have much faith in the Gladstonian principle as applied to England, but it is less applicable in the case of India. Start a campaign "See what we've given you; we are going to give you more: but you must pay for the time being: to begin with we're going to double the water rate."

Q. 26.—Yes, quite right. It would be easier here than in England because it could be done at resettlement. Proportion? Would not recommend lump sum, it would be borrowed.

Why not :—

(a) make the land revenue *half* the net assets in practice as in theory;

(b) take commutation prices without such a large margin of safety;

(c) sell water at monopoly rates and utilise proceeds for the development of rural areas (*vide* separate note).

Q. 27.—I cannot accept the statement that indirect taxes should be regarded as voluntary, and as such excluded in estimating the burden on the tax-payer.

The first four quotations reflect English 18th century opinion as regards what constitutes a just system of taxation :—summarised—

(1) taxes on necessaries were condemned, closely connected with Subsistence Theory of Wages on this point A. S lent his authority to support the prejudices of the time;

(2) taxes on luxuries were approved—when North and Pitt had to increase the revenue towards the end of the 18th century they began in this way, *e g*, carriages, pleasure horses, cards, newspapers, etc. Only when these failed did they resort to necessaries, and both were apologetic—the plea of necessity,

(3) direct assessment of means or income was condemned—to this position A. S. lent his support, it would involve "an inquisition more intolerable than any tax",

(4) taxation for purposes other than revenue, *e g*, trade and sumptuary purposes, was approved of

The first four quotations seem to me to sum up the attitude towards taxation till about the end of the 18th century *cf* in Rome under the Republic, as in Athens, no tax was levied upon personal income, but the chief sources of revenue were public estates, fines, tributes, and indirect taxes, *cf* also Teutonic times when the levying of a direct tax on a freeman seemed an insult, *cf.* Montesquieu L'impot par tete est plus naturel a la servitude L'impot sur les merchandises est plus naturel a la liberte, puisequ'il se rapporte d'une maniere moins directe a la personne

Cf Thiers and the dictum 'that indirect taxation is the method of the most advanced peoples, direct taxation that of barbarians', *cf* the continuance of the Income Tax in practice by Gladstone in England though theoretically he was most opposed to it

Modern tax theory has changed entirely from this standpoint, and has come to recognise that indirect taxation may under certain circumstances be a greater curse than direct taxation

Obviously indirect taxation of necessaries, unless free substitutes are available, cannot be regarded as voluntary

Even in the case of luxuries or conventional necessaries, I would not go so far as to regard them as voluntary. One of the essential characteristics of wealth is appropriation the root idea of taxation is to appropriate a share of the property or income of individuals for the benefit of the State, if taxation is imposed upon a luxury the individual is faced with the disutility of paying the tax, or the disutility of refraining from consumption, in the case of acquired habits, the magnitude of the latter disutility may be greater than that of the former, and he will continue to consume It is, however, elusive to say that the payment of the tax is voluntary

Q 23—I object to the statement, especially the last portion 'but imposes no economic burden' I have no objection to the imposition of heavy taxes upon smokers and drinkers, but it is futile to say that it 'imposes no economic burden' "Immoderate' would imply that the demand of that class was comparatively inelastic, he'll smoke his 20 cigarettes or drink his six chota pegs whether the price is high or low Obviously if the price is high—(as a result of taxation)—he will have less left to spend on other things Most of us act in our daily lives as though an increase of wealth were equivalent to an increase of utility (satisfaction of desire), conversely decrements taken by the State in the form of taxation involve disutility (they thwart the satisfaction of other desires) The language of 'imposes no economic burden' is scientifically loose

Q 24—I should approve of a tax upon entertainments, but I should object to it being said that it 'imposed no economic burden' The more the State takes from a man, the less he has left Wealth implies utility, the dispossession of wealth, conversely, implies disutility (whether that dispossession takes place by taxation indirectly or directly)

I would oppose most strongly a tax on railway tickets My personal conviction is that what India wants more than perhaps anything else is improvements in the means of communication Yet we tax railway materials, motor

cars, petrol, tyres, etc. Is it not rather ludicrous that the price of Attock petrol in the Punjab is higher than the price of good petrol in England?

Q 25—Obviously if you are considering the problem of incidence, you must get at the class upon whom the taxation falls. The Sikh community would have to be omitted in considering the tobacco duty You would never place any considerable part of the excise duty collected on imported whisky on the Jat Sikh section of the community in the Punjab, although they are consumers of liquor, nor could you apportion any part of the revenue collected from *bhang or charas* to the English section of the community. As regards excluding any section of the community who by religion or custom are prohibited from taking intoxicants, the problem seems to be not whether they are *prohibited*, but whether *they observe the prohibition or not.* If a certain section of the community do not consume intoxicants they should be excluded, if another section does, even though prohibited by religion or custom, they should be included

Q 27.—Yes

Q 28—There is much truth in this great constitutional rule, but it must always be a counsel of perfection, *cf* in democratic England till recently women paid taxes but had not the franchise, and Ireland had much more representation in the House of Commons than it was entitled to considering the revenue it paid.

Q 29—Indirect every time

Q 30—I do not consider a poll tax suitable to India under present conditions My experience of the capitation tax in Germany is that it was often paid by the pawning of furniture, etc In India, the wherewithal would often be borrowed

Q 32—I consider all the taxes mentioned less objectionable with perhaps the exception of kerosine oil—nor even it is preferable though I object to it The eyesight of Indian students is very bad, and one of the reasons is that they read with lamps which give quite an inadequate light

Q. 33—No, except in the higher reaches, say, for incomes over £2,000 per annum Income tax is still much more unpopular here than it is in England, anything like the war rates in England would be impossible here under present conditions; I am all in favour of keeping the rate low under normal conditions, and utilising the tax as a reserve in time of stress

Q 35—Most assuredly On unearned incomes, *e g*, those of absentee landlords, I think the rate might be 50 to 100 per cent higher.

Q 36—Very difficult in practice, hence another reason for keeping the rate low. The allowance for children would be particularly difficult, if registration were made a condition, it might assist in making our registration figures more accurate Personally I would not recommend

Q 38—If I wrote as a *Punjabi*, I should fight the imposition of direct taxation on agricultural incomes to the bitter end I should take my stand—I should have good authority behind me—that land revenue is a tax, and double taxation would be most inequitable Why not "keep our ain fish guts for our ain sea maws?" What is taken by the Income tax goes to the Imperial Treasury, it is lost to the Province—(unless perhaps it brought with it some remission of the Provincial contribution). To suggest that some share of the Income tax receipts should be allotted to Provinces—(*cf.* Mr. Wilson's Act of 1860 where 25 per cent of the contributions were so allotted)—would mean that Bengal and Bombay would get much and we in the Punjab would get little

As an *economist*, however, I should advocate the removal of the exemption most strongly. I have never been able fully to understand why, when these incomes were included in the first Income tax imposed in India in 1860 by Mr James Wilson, they were ever excluded afterwards Take Lord Cornwallis' statement—(which I shall quote) The argument advanced by Mr. Wilson for their inclusion appear to me irrefutable, and are as applicable to-day as they were in 1860 This of course is on the assumption that land revenue is a rent, not a tax, no manner of doubt in the Punjab (*Vide* my answer to Q. 96)

Whether such a tax would be *expedient* is another matter. I have to admit that many of the most experienced administrators in the Punjab whom I know are opposed to the inclusion of the agriculturists Some who are not opposed to it in principle consider that the yield would not be sufficient to counterbalance the vexation that would be caused. I fear that we in the Punjab would go but a short way towards "the 15 to 20 crores of rupees" the forecast made in your question No 39

I approve of the inclusion as an economist, but I feel strongly that some index of income must be adopted in the case of agricultural incomes I think it would be criminal to subject the zamindar with only a moderate income to inquisitorial proceedings Farmers the world over are notorious for not keeping accounts and with some experience of the farming community in Scotland in my boyhood, I think it would be no exaggeration to say that many farmers did not really know what their income was Perhaps even more true of India Hence old rule—½ rental in England—⅓ rental in Scotland. In Income Tax Act of 1860 profits in respect of land in the districts subject to periodical assessment were taken as being equal to half the rent paid to Government, thus all zamindars whose payment to Government fell short of Rs 400 a year were exempt under the Rs 200 limit this of course was almost farcical in the Province of Madras 1,800 out of 1,518,187 landholders, or 0 1 per cent were liable to assessment If you are going to tax agricultural incomes, you must in the cases of those around the exemption limit sacrifice equality to the shrine of certainty and convenience

If this method is adopted the number who would come within the net would be easily ascertainable, if on the other hand, the tax is to be on actual income only the wildest guess could be made at what would find its way into the public treasury of the State, as well as of what would be taken out of the pockets of the zamindar, and would never find its way into the public treasury of the State It is a bad thing when people pay to get off

Q 40—(Note to your note the Indian exemption limit was Rs 200 in the Income tax of 1860)

In a country such as India there is a most serious objection to fixing the limit too low, unless needs must It is bound to result in extortion, and the earlier history of direct taxation shows that extortion was practised on a very large scale at times *cf* the challenge of Mr Inglis that for every rupee that found its way into the public treasury under the Income tax Act of 1870, another found its way into the pockets of the petty officials No doubt administration has improved since those days, but I should consider the matter very seriously before I suggested the lowering of the exemption limit, except perhaps in the case of agricultural incomes in which case I should adopt some criterion of income and not have individual assessment

At the same time you must both on economic and political grounds devise some method of tapping the salaried and trading classes with incomes below Rs 2 000 per annum For this purpose I believe something of the nature of a License Tax would be the most efficient method but if I remember rightly this is a Provincial head A man with Rs 150 per month pays remarkably little in India, and yet he is a man far removed above poverty

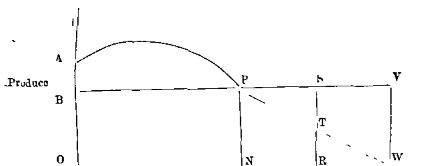
That there is no such exception in the case of the payer of land revenue has in my opinion nothing whatever to do with it The two payments are of an essentially different nature, I fail to agree with Baden Powell that land revenue is of the nature of tax Both historically and theoretically, in the Punjab at least, it is the share of the State in the surplus produce of the land (*Vide* Settlement Manual, Douie—I shall read a few sentences) The very term "half the net assets" brings in the idea of a surplus Land Revenue is certainly not a tax on rent, but what economists and administrators have failed to realise is that it *may* become a tax on wages and profits (agricultural) On the assumption that cultivation ceases at the margin of profitableness and not beyond it,* the surplus emerges whether the lands are held on the large scale or on the small If half the surplus is taken when the land is held on the large scale, is it not perfectly equitable to take it when held on the small?

---

* See Supplementary Note—next page

If there is an anomaly, then the method of correcting it is—

Supplementary Note.—Q 40 —



Productive Power.

I consider it unfortunate that sufficient stress has not been laid on the fundamental assumption underlying the present system of land revenue It is that cultivation stops at N, where PN is the last profitable dose, *i e.*, when the amount of produce PN is just sufficient to yield normal profits and normal wages for the N*th* dose

If PN is just sufficient to yield normal remuneration on the *nth* dose, it will similarly afford normal remuneration to the 1st, 2nd (n 1)th dose But assuming the application of the law of diminishing return in its intensive form, previous doses will have yielded more than PN, the area $BONP$ will represent the normal remuneration of the farmer, and the area ABP is a surplus it is this area ABP that is the "net assets" of land revenue administration

Now when competition prevails in the letting of land for agricultural purposes, and where the farmers are substantial, there is a tendency for cultivation to be pushed to the point N, and for the rent paid to be based on an estimate of the magnitude of the surplus ABP. Even in the case of substantial farmers, there is often a tendency for them to induce their landlords to invest capital beyond the point N, and the latter as a rule demur knowing full well that if cultivation goes on to the point R, there is on the *rth* dose not a surplus, but a deficit represented by ST, and if the farmer is to get normal remuneration for all doses up to the *rth*, it can only be done by reducing the rent ABP by the amount PST.

(*Note* · By the application of doses from the *nth* to the *rth*, the gross produce is increased, but the return from each additional dose is less than adequate to give normal remuneration)

Now here comes the snag (theoretical) from the standpoint of land revenue administration, and I consider it a pity that economists have not pointed out more clearly that "*there may be no surplus*". We are continually assured by *one party in the Council that "there is no surplus"; they may be right.* Or take the following extract from Moreland.—"His payment is fixed in terms of the Producer's Surplus at the time of assessment, but very rarely, if ever, amounts to the whole surplus, but ordinarily leaves part of it to the peasant, and this part ordinarily increases between assessments. This view is not merely true, but fruitful, because it directs attention to one of the most important questions in India, the use made by the peasants of their margin *Politicians may deny that the margin exists, but it is a fact which has to be realised by students of economics*" The statement italicised may be correct, or it may be wrong. Everything is dependent on the fundamental assumption underlying the "net assets" argument that cultivation stops at the last profitable dose Now in a province where peasant proprietorship is the rule, when the law of primogeniture does not apply, where many of the holdings are uneconomic from the standpoint of size; that is an assumption which may as often be wrong as right It is not only in India that the tendency is apparent of peasant proprietors to go on cultivating their land so long as it gives *any appreciable additional return* to the labourer (*cf.* Crofters in Caithness and

Sutherland in Scotland). If these peasant proprietors made a fair allowance for interest on their capital and for the wages of their labour, there would be nothing left over in the shape of economic rent or "net assets": in other words, if cultivation is pushed to the point E, then the loss involved in the application of the doses from N to W, i e, PVW, may swallow up the surplus ABP. If, on the other hand, the equivalent of the surplus (or a share of it) has to be paid to a second party, that can only be done at the expense of normal wages and profits—i e, the peasant proprietor will be reduced to a standard of comfort lower than what is usual for his class of labour

There is the further assumption involved in the term "dose"—that capital and labour should be combined in proper proportions. In the Punjab the tendency is for that dose to be made up of too much labour and too little capital This is likely to have the result of pushing the application of labour beyond the point of profitable application

The problem, therefore, which faces the Taxation Committee is to get at the real incidence of the Land Revenue What is in theory a rent-charge by the State may become a tax on the wages of labour and the profits of capital.

On this difficult subject I believe we shall get much valuable information from the village surveys conducted by the Board of Economic Inquiry, Punjab.

Obviously cultivation below the margin of profitableness is not a thing you want to encourage, a premium would be put upon this if you exempted from land revenue agricultural incomes below a certain amount The remedy would seem to lie in the encouragement of subsidiary employments (*cf* Bavaria): emigration to less crowded districts, and (more doubtful) legislation against undue fractionisation

(1) to subject to Income Tax agricultural incomes over the exemption limit, or perhaps to fix the limit lower for the rural district,

(2) to impose something of the nature of a License Tax on non-agriculturists who do not come within the Income Tax net.

Q 42—Most assuredly not Two sets of books is a common enough occurrence without asking for them Your "special" form of accounts would simply be a faked form for taxation purposes. Much better to get the books themselves

Q. 43—If income tax rolls were made public records, it might increase the revenue It is not at all uncommon, even under present conditions, for a man to declare his income as much bigger than it is partly with the idea of improving his social status, but more often when he may have to borrow from the banks then he tells what he paid in Income Tax, and the bank manager may be deluded

Q 48—(*a*) I agree This is largely the view of Adam Smith which in England was carried into practice by Huskisson, Peel and Gladstone

(*b*) *If*—but it is a big *if*

(*c*) I agree with all except the last line I object to the "no hardship", *cf* my answer to "no economic burden" in question No 23 "Hardship" is not a scientific term, substitute "Disutility" and the statement is wrong

Q 50—Yes! it s actually done in a scandalous manner in India at present A Madrasi colleague of my own, drawing the same pay, smokes Madras whiffs sent to him from his village Postage and octroi made up the cost He can smoke all day for about Re 1 per month My tobacco costs me Re 1 per day. Practicable it's done, but it's iniquitous

It is inadvisable in the case of whisky, bad drink is a curse, good drink is good both for the stomach and the soul of man

Generally the principle of graduation cannot be applied to indirect taxation and is not recommended

Q 52—*I agree with the quotation For a particular purpose I believe salt* to be admirably suited

Special Note—I believe in some Indian State salt obtained in the process of manufacturing saltpetre has to be buried, and police have to be employed to see that it is not dug up again In Bhawalpur State, I am told this is the case If so, this subject calls for special inquiry.

Q. 61.—I am glad to have Mr. King's assurance as a witness before you that such a policy is not contemplated. For this last year or two everything has been pointing in that direction.

Q 63—(*a*) The aim of taxation should be revenue, not to make a teetotal world.

(*b*) It may be now; it has not always been so English policy has fluctuated in this respect; sometimes to encourage consumption, *cf.* Methuen Treaty of 1703, and results very satisfactory; the 18th century was one of the most drunken in the history of England, sometimes to raise revenue, *cf* supplementary budget speech in 1914, and sometimes to check consumption.

(*c*) I disagree.

(*d*) Will accept the first part.

(*e*) Perhaps true

(*f*) I do not understand the quotation.

Q 64—The recent policy in the Punjab admits of much criticism. In places of amusement bars were forbidden After an uproar the Gaiety Theatre in Simla last summer secured the right to sell alcoholic liquors; the poor fellows sweltering the plains who visited a picture house could drink 'pani' After a game of hockey on the plains alcoholic drinks could not be sold because the license duty was so heavy as to make it impracticable It is not wise to allow the "bara sahibs" in the coolth of Simla to have their peg, and forbid it to the man who is sweltering on the plains

Q 67.—If locally-made imitations of imported liquors are all as bad as the ones I have tested, it would be good policy to tax them out of existence

Q 69—No! I should keep the customs an imperial head, and allow no further taxation by local Governments.

Q 81—I fear here I am up against current Indian opinion, but I consider the high duties levied on material necessaries for the extension of the means of communication and transport, *cf* railway material, motor cars, and their accessories, petrol, etc, a great mistake One of India's greatest needs is improvement in the means of communication This subject should receive particular attention from the Committee.

Q 96—Define :—

Tax—Will accept Bastable's definition, as perhaps the best known

Rent.—A differential surplus arising from differences in the cost of production, the difference being due to permanent natural conditions

(*a*) In the Punjab the Government has never renounced its right to a share in the land, and still regards itself as a joint owner in the soil; *cf.* Punjab Settlement Manual, and following quotations therefrom.—

> "The right of the ruler to his share, and the right of the occupier to hold the land he cultivated and pass it on to his children both formed part of the customary law of the country, however the latter might occasionally be denied by an unjust Government" (*cf.* Villein tenure in Mediaeval England)
>
> "By the ancient law of the country the ruling power is entitled to a certain proportion of the annual produce of every *bigha* of land".
>
> "The land revenue of India, as of all Eastern countries, is less to be regarded as a tax on the landowners than as the result of a kind of joint ownership in the soil or its produce".
>
> "Owners, Proprietors It would be a mistake to assume that these words, as used in India imply all that they do in England. The share of the State, which is called the land revenue, is *not* a land tax".

If further proof be needed, take the following —"the land revenue is therefore the first charge upon the rents, profits or produce of an estate or holding, and until it has been paid, they cannot, without any previous consent of the Collector, be taken in execution of a decree by any private collector". In other words, your partner must get his share before other debtors can lay claim to the gross produce.

To me, such evidence is conclusive that the Punjab Government still maintains its right as a joint owner to a share in the produce of the land.

(b) If there was any doubt before the British administration that, in my opinion, should have been set at rest by the policy adopted since Instead of claiming a definite share of the gross produce, the State set itself to eliminate the net produce or surplus. It set itself to eliminate that portion which in other countries would go as rent to the landowner That it laid down theoretically that it would take only half the net assets instead of a share of the gross produce does not make its claim a tax Re settlement is simply a valuation of the productive capacity of the business, and a readjustment of the shares of the partners.

(c) Even on the assumption that land revenue was originally a tax—an assumption which I do not consider is corroborated by historical evidence—it must have tended to become more and more a form of State ownership. What may—may I say—have originally been a land tax regarded as perpetual would become a rent charge owned by the State So far as land has been bought and sold for productive purposes—and not for social and speculative purposes—the burden of the land revenue payment must have been allowed for, and the capitalised value of the land diminished thereby The real incidence would be upon the original owner, at the imposition of the tax the value of his property would be diminished by the capital value of the tax (cf Seligman, Incidence of Taxation Book II, chap IV) To remit land revenue would be equivalent to making a present to zamindars, the capitalised value of this land when freed from this payment would be so much more The effect on the price of the produce would be practically nil Compare this with water rates; to remit the water rate and to give a bounty on raising water from wells would lower the cost of production and most likely cheapen the price of the product

Q 97—I do not consider that the payment of land revenue is a salient factor in affecting the economic prosperity of the cultivator Compared with the evils of indebtedness, of fragmentary holdings, of the small amount of capital applied in cultivation, it is a small factor

Q 98—Sweeping assertions of this nature are not worth the paper they are written on

(a) I fail to see how the land revenue assessment ignores "the ability to pay" of the subject It may do so in permanently settled tracts where, with variations in cropping, or in transportation, in irrigation, etc , the relative value of the land in different tracts has become different from what it was when the settlement was originally made But in temporary settled districts, each re settlement is really a study of "the ability to pay" Once every 20 or 30 years we rewrite our "Domesday Book" It may be that the criticism here is directed against the small man paying just as does the big man But in so far as it is admitted that land revenue is a charge on the net product, i e , the Surplus, that emerges no matter how the land is held, and I can see no economic justification if a share of it is taken in one case why it should not be taken on the other Not remission of land revenue in the case of the small man—but further taxation of the big man, e g , by applying to him the Income Tax seems to me the solution of the problem

(b) 'The assessments lack the element of certainty" This appears to me hyper-critical. As stated by A S—"the time of payment, the manner of payment, and the amount to be paid should be clear to the contributor and to every other person" If reassessment took place, say, every five years, it might militate against this canon, but I do not believe that even A S himself would have attacked a reassessment every 25 years on the grounds that the uncertainty attaching to the tenure of land so held would have checked production Why in England much agricultural land is still held from year to year, in Scotland in the Lothians a 19 years' lease is as far as I know the most common there of course there is the well established tradition of not bidding up to oust a sitting tenant

(c) "that any other system we can think of" I very much doubt this statement, and would direct the maker of it to the history of direct taxation in India In 1870 it was asserted by Mr Inglis, the Senior Member of the Board of Revenue, North Western Provinces, that though only 1 in 300 paid income tax to Government, he was afraid that of the remaining 299 at least one half

Q. 61—I am glad to have Mr. King's assurance as a witness before you that such a policy is not contemplated. For this last year or two everything has been pointing in that direction.

Q 63—(*a*) The aim of taxation should be revenue, not to make a teetotal world

(*b*) It may be now; it has not always been so English policy has fluctuated in this respect; sometimes to encourage consumption, *cf* Methuen Treaty of 1703, and results very satisfactory, the 18th century was one of the most drunken in the history of England, sometimes to raise revenue, *cf*. supplementary budget speech in 1914; and sometimes to check consumption.

(*c*) I disagree

(*d*) Will accept the first part.

(*e*) Perhaps true

(*f*) I do not understand the quotation.

Q 64—The recent policy in the Punjab admits of much criticism In places of amusement bars were forbidden After an uproar the Gaiety Theatre in Simla last summer secured the right to sell alcoholic liquors, the poor fellows sweltering the plains who visited a picture house could drink 'pani' After a game of hockey on the plains alcoholic drinks could not be sold because the license duty was so heavy as to make it impracticable It is not wise to allow the "bara sahibs" in the coolth of Simla to have their peg, and forbid it to the man who is sweltering on the plains.

Q 67—If locally-made imitations of imported liquors are all as bad as the ones I have tested, it would be good policy to tax them out of existence

Q. 68—No! I should keep the customs an imperial head, and allow no further taxation by local Governments.

Q 81—I fear here I am up against current Indian opinion, but I consider the high duties levied on material necessaries for the extension of the means of communication and transport, *cf* railway material, motor cars, and their accessories, petrol, etc, a great mistake One of India's greatest needs is improvement in the means of communication This subject should receive particular attention from the Committee

Q 96—Define:—

Tax—Will accept Bastable's definition, as perhaps the best known

Rent—A differential surplus arising from differences in the cost of production, the difference being due to permanent natural conditions

(*a*) In the Punjab the Government has never renounced its right to a share in the land, and still regards itself as a joint owner in the soil; *cf*. Punjab Settlement Manual, and following quotations therefrom —

"The right of the ruler to his share, and the right of the occupier to hold the land he cultivated and pass it on to his children both formed part of the customary law of the country, however the latter might occasionally be denied by an unjust Government" (*cf* Villein tenure in Mediæval England)

"By *the ancient law of the country the ruling power is entitled* to a certain proportion of the annual produce of every *bigha* of land".

"The land revenue of India, as of all Eastern countries, is less to be regarded as a tax on the landowners than as the result of a kind of joint ownership in the soil or its produce".

"Owners Proprietors . It would be a mistake to assume that these words, as used in India imply all that they do in England. The share of the State, which is called the land revenue, is *not* a land tax".

If further proof be needed, take the following:—"the land revenue is therefore the first charge upon the rents, profits or produce of an estate or holding, and until it has been paid, they cannot, without any previous consent of the Collector, be taken in execution of a decree by any private collector". In other words, your partner must get his share before other debtors can lay claim to the gross produce.

To me, such evidence is conclusive that the Punjab Government still maintains its right as a joint owner to a share in the produce of the land.

(b) If there was any doubt before the British administration that, in my opinion, should have been set at rest by the policy adopted since Instead of claiming a definite share of the gross produce, the State set itself to eliminate the net produce or surplus. It set itself to eliminate that portion which in other countries would go as rent to the landowner That it laid down theoretically that it would take only half the net assets instead of a share of the gross produce does not make its claim a tax Re settlement is simply a valuation of the productive capacity of the business, and a readjustment of the shares of the partners

(c) Even on the assumption that land revenue was originally a tax—an assumption which I do not consider is corroborated by historical evidence—it must have tended to become more and more a form of State ownership. What may—may I say—have originally been a land-tax regarded as perpetual would become a rent charge owned by the State So far as land has been bought and sold for productive purposes—and not for social and speculative purposes—the burden of the land revenue payment must have been allowed for, and the capitalised value of the land diminished thereby The real incidence would be upon the original owner, at the imposition of the tax the value of his property would be diminished by the capital value of the tax (cf Seligman, Incidence of Taxation Book II, chap IV) To remit land revenue would be equivalent to making a present to zamindars, the capitalised value of this land when freed from this payment would be so much more The effect on the price of the produce would be practically nil Compare this with water rates; to remit the water rate and to give a bounty on raising water from wells would lower the cost of production and most likely cheapen the price of the product

Q 97—I do not consider that the payment of land revenue is a salient factor in affecting the economic prosperity of the cultivator Compared with the evils of indebtedness, of fragmentary holdings, of the small amount of capital applied in cultivation, it is a small factor

Q 98—Sweeping assertions of this nature are not worth the paper they are written on.

(a) I fail to see how the land revenue assessment ignores "the ability to pay" of the subject It may do so in permanently settled tracts where, with variations in cropping, or in transportation, in irrigation, etc, the relative value of the land in different tracts has become different from what it was when the settlement was originally made But in temporary settled districts, each re-settlement is really a study of "the ability to pay" Once every 20 or 30 years we rewrite our "Domesday Book" It may be that the criticism here is directed against the small man paying just as does the big man But in so far as it is admitted that land revenue is a charge on the net product, i e, the Surplus, that emerges no matter how the land is held, and I can see no economic justification if a share of it is taken in one case why it should not be taken on the other Not remission of land revenue in the case of the small man—but further taxation of the big man, e g, by applying to him the Income Tax, seems to me the solution of the problem

(b) "The assessments lack the element of certainty" This appears to me hyper-critical As stated by A S—"the time of payment, the manner of payment, and the amount to be paid should be clear to the contributor and to every other person" If reassessment took place, say, every five years, it might militate against this canon, but I do not believe that even A S himself would have attacked a reassessment every 25 years on the grounds that the uncertainty attaching to the tenure of land so held would have checked production Why in England much agricultural land is still held from year to year, in Scotland in the Lothians a 19 years' lease is as far as I know the most common there of course there is the well established tradition of not bidding up to oust a sitting tenant

(c) "that any other system we can think of" I very much doubt this statement, and would direct the maker of it to the history of direct taxation in India In 1870 it was asserted by Mr Inglis, the Senior Member of the Board of Revenue, North Western Provinces, that though only 1 in 300 paid income tax to Government, he was afraid that of the remaining 299 at least one half

was subjected to vexation, oppressive inquisition and extortion on account of the tax. Of the 299 a very large number had to pay to keep their names off the list. He gave it as his candid opinion that for every man who paid income tax to Government, 20 paid to get off, that for every rupee that was paid into the Treasury of the State, another was paid into the pockets of the subordinate officials Naturally such a statement by a man in the position of Mr Inglis could not go unchallenged and the Lt Governor (Sir William Muir) was called upon to report if such demoralisation actually existed amongst the Income tax officials and further whether such alleged demoralisation had spread to other branches of the service His reply is worth quoting (para. 21) From what has been said it will be gathered, in the judgment of the Lt.-G., the convictions to which the Hon. Mr Inglis gave expression in the Legislative Council are to a very considerable extent well-founded", but he was happy *to state that the demoralisation had not extended to other branches of the service.*

I *"can think of"* tyranny and extortion worse than I believe to prevail in land revenue administration

If "the time of payment is most inconvenient for the cultivator" I am sure that a petition to Government would succeed in having the time of payment altered I should have thought that the collection just after harvest would have been as convenient as any other. In the Questionnaire for Village Economic Inquiries in the Punjab, we have inserted the question "Are the dates fixed for the payment of Land revenue convenient for owners? If not, what other dates would be more convenient?" If we find as a result of surveys that existing dates are inconvenient, steps will be taken to alter them

(*d*) Yes! if 20 per cent is spent, it does seem to mitigate against the canon of economy. Deductively I suspect the figure, but would refer you to the administrator.

Q 99—On what prices is land revenue assessment based at settlement?—Commutation prices: this is an extraordinarily difficult subject. That it may be an extremely upsetting factor is seen if one looks over commutation prices in the last 20 years in the Punjab.

I would refer members to pp. 53-55 of my paper on Punjab Food Prices. In these pages I think a tendency towards a ten-yearly cycle of food prices has been established. If that is accepted, then the best base for commutation prices would be the average of the ten preceding years. What the Settlement Officer is after of course is the prices in the following 20 years, but the only reliable index of these is the average price in the past; and in a Province which is rapidly changing a ten years' average may be better than a twenty-years' average.

Even this will leave untouched the question of inequality as between district and district when reassessments are made at different times, I can see no way of overcoming this difficulty.

Subsistence Level—*Q 100.*—I disagree with the opinion expressed in the quotation, but this is not asked for.

Obviously Rs. 2,000—Rs. 166 per mensem—per annum is much above subsistence level—if by subsistence level you mean sufficient to keep body and soul together. If this meaning is accepted, I believe the majority of the inhabitants of the Punjab are living far above subsistence level I set out below an index number constructed by myself, of the prices of wheat, barley, *bajra*, *jowar* and gram—(in each case the average is constructed from the fortnightly return of retail prices from 23 districts in the Province)—during the years 1911 to 1920

(Base: Average price from 1873-1882 = 100)

1911	1912	1913	1914	1915	1916	1917	1918	1919	1920
133	167	166	161	210	194	191	203	336	286

We are very ignorant on the subject of wages in the Province, but most people know from experience that the general level of wages did not increase between 1911 and 1919 in the ratio of 133 to 336 My contention is that if when prices stood at 133 in 1911, people were living on subsistence level

they would have been faced with the most dire starvation and want when in 1919 prices rose to 336; and when in 1921 they rose still higher, there would have been famine on a tremendous scale The fact that this colossal rise in prices around the end of the decade—to my mind the sum of two causes (1) after effects of the war, and (2) the crest of the cycle, passed off without any considerable demand for famine relief, though it must have caused much hardship in individual cases, seems to me proof positive that the great bulk of the population are normally living considerably above the level of bare subsistence.

Whether Rs. 2,000 per annum is above or below the necessary level not for keeping body and soul together, but for maintaining the efficiency of any particular class is an entirely different matter, and one on which I should not like to express an opinion

I do not think it practicable for a taxing officer to ascertain even approximately—at least without much vexatious inquisition which had be better avoided—whether an agriculturist's income exceeds this limit (*i.e.*, Rs 2,000) I very much doubt if the cultivator knows himself Further his normal income is but a small portion of his real income Whether it exceeds "*any limit*" is rather different. The bigger man may be depended upon to look after himself and will not be so likely to be subjected to the tyranny and extortion of the tax-collector You must avoid —

(1) the corruption that must ensue if for every man who pays income-tax some 20 pay to get off, and

(2) subjecting the agriculturist to the vexatious job of filling in returns It is not the first time in the history of India that the cry has been "Take from us what you want, but spare us those returns"

I consider that, if the income tax is to be applied to agricultural incomes from Rs. 2,000 upwards, some method may have to be devised for assessing automatically income from, say, Rs 2,000 to Rs 5,000 In Mr Wilson's Act of 1860 profits in respect of land were assumed to be equal to half the rent paid to Government, and they were assessed at this amount All zamindars, therefore whose payment to Government fell short of Rs. 400 a year were exempt under the Rs 200 limit The grave objection to this is that Government's claim in practice is so much less than its claim in theory, and many who would legitimately come within the scope of the Income Tax would thus be exempt In the case of larger agricultural incomes, I should assess on a schedule as in the case of other incomes

To grant an exemption from the payment of land revenue of incomes below a certain amount is in reality to grant a premium on smaller holdings, and may encourage fractionisation and uneconomic holdings and cultivation below the margin of profitableness I should not press this point, but the exemption of such incomes seems to me to strike at the very basis of land revenue theory.

Q 101—Mr Calvert should be examined on this point for he is the authority on the subject, and has done more to effect practical improvements in India than perhaps any man living

Q 102—No, not in its entirety Both Burke and Adam Smith have pointed out the disadvantages of Crown lands, and the advantages that were likely to accrue, and have actually accrued, from their disposal To my mind there are great advantages in granting proprietary rights to individuals—self interest provides a greater stimulus to production than anything to be found in Government routine—but these grants can be made in such a way that part of the appreciated value will accrue to the State, *e g*, new waste lands in the Punjab,—roads being laid down first Also resettlement after a number of years—also the raising of water rates once the colonists are in a position to pay.

From the purely theoretical standpoint I should strongly support the imposition of such duties, but I anticipate considerable administrative difficulties in India (1) difficulty of making any fair assessment (2) extremely unpopular

One point that should be considered—claim often made in favour of a succession tax as opposed to an income tax is that it is paid once for all, and at the time most convenient to the payer Now this from the economic standpoint, simply means that the tax falls upon capital, and not upon income

India is thirsting for capital for her industrial and commercial development, and especially desirous to have that expenditure provided within the country (*vide* the appointment of an External Capital Committee) and any measure that might restrict the supply of that capital might be deprecated on that account. I do not press this point.

Q 120.—(i) Extremely bad.

(ii) Income-tax on agricultural income: I accept in theory: whether expedient or not is another matter Succession duties I approve of. Registration fee on marriages would I think be good—the expenditure then is so heavy that it would not be missed Tax on motor cars and vehicles I object to most strongly: I'll admit Rolls-Royces and that species, but I believe that in India the Ford should be liberated from taxation altogether Servants · No! they are not a luxury · I should like if I could do with half of what I have, but the "*dastur*" is that one will not do another's work. Betel leaf and areca nuts: yes, but would the return make it worth while?

(iii) Race horses—No! So short-sighted. Surely we want to improve our stock in India, and not to discourage it

(iv) I do not agree with Sir Ganga Ram. If you abolish land revenue, what will happen in a year when there is little for export?

Q 121—Accept, but is the last sentence correct? It is not the first time in Indian history that a tax on tobacco has been suggested but it has always been considered that the administrative difficulties were very great I should think the last sentence has reference to a "tobacco importing country", not to "a tobacco growing country".

At the same time I consider it will be a great mistake if an attempt is not made to impose a duty on Indian grown tobacco, or to reduce the duty on imported tobacco I have tried twenty times to acquire a taste for Indian grown tobacco and have failed · many must have succeeded · why penalise to the present extent the man who smokes American or Egyptian tobacco?

Professor Myles gave oral evidence as follows:—

The President. Q—Can you tell us in a word the effect of the commutation prices on settlements?

A—There is the difficulty of securing anything in the nature of equality as between district and district when you take the prices of the years that immediately precede the year in which settlement takes place. For example, if you take the commutation prices of the settlements in the Punjab around 1921, they are very much higher than the commutation prices that were taken a few years ago and the commutation prices that have been taken since No doubt they were partly influenced by the high prices prevailing during 1919 21.

Q—Is not the settlement based on the average of the preceding 20 non-famine years?

A—That is not what is done (The witness read relevant portions from the Punjab Settlement Manual.)

(The witness handed over a graph to the Committee).

Q—What do you deduce from this graph?

A.—I deduce that it is extraordinarily difficult to get over the existing difficulty of the settlements made at different times being unequal as between district and district. You are working with prices taken some years previously. There must be inequality as between district and district.

Sir Percy Thompson. Q—I gather from the graph that for a prolonged period you take the average When you take the yearly average they oscillate a good deal; when you take three years, they oscillate less, and when you take ten years, they oscillate much less.

A—Even if you take the ten years you will have some changes. From 1887 to 1895 you get a considerable rise in the general level and then you get a period of fairly steady prices setting in until about 1905, after which you get a continuous rise. Assuming that you take a district that had been re-settled between 1895 and 1905, that district has had 20 or 30 very successful

years from the standpoint of land revenue in that the prices were rising continuously while the commutation prices were based on a low level; whereas those settlements that have taken place 20 years afterwards must be influenced by the much greater rise in prices.

The President. Q—You say that there is continual inequality under the present system of settlements?

A.—I fear so. It may not be serious in actual practice; because the commutation prices are found to be very low in practice in comparison with retail prices.

Q—One of the suggestions is that the land revenue should be a percentage on capital value Once you get every district settled on that basis, there will be less variation between your capital values and these commutation prices.

A.—That involves a complete departure from the system of land assessment that has been prevailing in India for generations The existing method is recognised and acknowledged by the people I fear that there might be an uproar against any other system

Q—I quite recognise that But we are instructed to see whether the existing system conforms to the canons of taxation As an economist, would you test it by those canons? We have touched the canon of equality and on that point you say it does not conform Do you regard progression as a canon applicable in the case of land?

A—No; in that the land revenue system aims at striking the surplus

Q—Do you consider that there should be any element of progression in the taxation on income derived from land? As an economist you can say The New Zealand tax is progressive

A.—I should not have the land revenue progressive, but I should subject incomes from land above a certain limit to income tax and bring them under a progressive scale

Q—May I take it that your view is that progression is a canon of taxation?

A—I accept progression

Q—And you would have progression in respect of incomes from land, although you would not do it through the land revenue You would introduce progression by super-imposing income-tax in the case of larger incomes?

A—I would I do not regard land revenue as a tax

Q—But you do think that there should be something progressive in the matter of taxation on incomes from land?

A—I think so. I should favour progression on incomes from land above a certain point, but should not apply it through the land revenue assessment

Q—Simply because they are incomes?

A—Yes, as incomes, but land revenue I should impose whether the land is held on a small or large scale, though it must be admitted that when cultivation goes beyond the margin of profitable expenditure, this may become a tax on agricultural wages and profits

Dr Hyder Q—How does it go beyond the margin of profitable expenditure? You say with reference to your graph that the margin of profitable expenditure can perhaps be reached and the return that the cultivator gets does not remunerate him I am asking you how it is possible Do you think that the cultivator cultivates the land for the love of it?

A—No, but in an area where you have congestion of the population, where you have little mobility of labour and where you have very small holdings, there is a tendency not to stop cultivation at the margin of profitableness but to go on cultivating so long as there is any increase in the gross return, i e where the additional unit of produce is insufficient to recompense the additional application of labour and capital that is necessary for producing that particular unit.

Sir Percy Thompson Q—If you reduce the land revenue on the ground that the holdings are small, will it not have the effect of encouraging the formation of uneconomic holdings?

A.—Most assuredly it will I have mentioned that particularly.

The President Q—We have dealt with the canons of equality and progression. Do you hold it incumbent on a holder of land to produce? Is it legitimate that he should be allowed to keep the land idle?

A—If he desires to keep it idle, he can do so

Q.—You would still charge him land revenue?

A.—I should.

Q.—So that you penalise him if he does not produce?

A.—I do; but I do not insist on his cultivation.

Q—What about the canon of certainty? What do you think of this criticism? 'Except where there is a system of permanent settlement in vogue, the assessments lack the element of certainty'.

A—It seems to me hypercritical If you had settlement every three or five years, there might be some truth in that. But I do not think even Adam Smith himself would have said that reassessment every 25 or 30 years was against the canon of certainty. In England much land is held from year to year, in parts of Scotland you have a 19 years' lease

Q—Have you anything to say about the canon of convenience? It is said 'The present system leads to more official tyranny and extortion than any other system we can think . . . . The time of payment of revenue is most inconvenient for the cultivator'. (Q 98)

A.—We know that a certain amount of it goes on If you take the history of direct taxation, the early history of the Indian Income-tax, the tyranny and extortion were quite incomparable with what you find in the case of land revenue It has been stated on good authority that for one man who paid income-tax, 20 people paid to get off For each rupee that went into the pockets of the State another rupee went into the pockets of the officials. That was said by the Financial Commissioner of the North-Western Provinces in 1870. A committee of enquiry was appointed and it was acknowledged that it was true I do not think land-revenue administration is as bad as this

Q—You think that was far worse than the present system of taxation by the canal patwari?

A.—Yes

Q—About the time of payment

A—I have always thought that the greatest care was exercised as regards making the time as convenient as possible. If the time of payment is unsuitable, a petition to the Government will be favourably attended to. In the questionnaire in respect of the enquiries which the Punjab Board is trying to institute all over the province, we have specially put in a question about the time of payment. We have asked if the present time of payment is the most suitable, and if not, what time would be recommended in its place As these enquiries progress, if we find that in certain areas the time of payment is inconvenient, I think I may say that we shall succeed in getting the Government to alter the time of payment.

Q.—You would not postpone it from one year to the next?

A—There is no likelihood of that.

Q—What do you think of the proposals in New Zealand? (The Chairman handed over to the witness the paper containing the proposals)

A—With regard to (1), it is similar to that in India With regard to (2) you have exactly the same thing here as regards land revenue In the case of a decree for debt brought against a cultivator, that decree cannot be put into action without the special permission of the Commissioner until the land revenue has been paid In other words, the other partner in the process of production must receive his share before other creditors can lay claim to the gross product

Q—You say it is a rent or in the nature of a rent charge

A.—I believe it had originally been a rent; and even if it had been a tax it has now become a rent charge.

Q—Are there any other canons which you would apply to income tax and which we ought to apply to the land revenue in order to answer the reference made to us?

A.—I should not apply the exemption of a minimum in the case of land revenue.

Q—About ability to pay?

A.—I do not think it altogether ignores ability to pay It is a rent and if you take half the net assets in the case of a large estate, it seems to me to be perfectly legitimate to take the half of the net assets in the case of a smaller estate. But it needs to be supplemented by an income-tax in the upper regions.

Q—Do you consider that the system of assessing it can be simplified?

A—I have had no practical experience.

Dr. Hyder *Q*—You consider that Government is in the position of a monopolist in the matter of canals?

A.—Yes

Dr Paranjpye *Q*—But they have created that monopoly themselves

A—The supply of water must be a monopoly and it is, as it happens, a Government monopoly

Dr Hyder *Q*—With regard to water rates, the whole question is this that the people of this province through the Legislative Council have said, 'the Government is asking too much; we cannot pay'. Do you think, as an economist, that water rates should be based on the cost of service principle or on the value of service principle? There can be no question of competition. The Government is in the position of a monopolist. Now we have got to decide what principles you are going to apply to water rates

A.—Subject to one proviso, which I have mentioned, I should apply the principle of monopoly value to the water rates in the Punjab

Q—Then the people will say that the Government is taking the utmost that it can from the people

A—Exactly; they say that at present The difficulty is partly a political one The agriculturists believe that they are paying more than their fair share towards the revenue of the province They say that the urban man is not sufficiently taxed relatively to the rural Therefore I have put forward the idea of having within your budget what I have called a Development Fund and I would utilise the revenues from such a thing as monopoly of water for purposes of further development in rural areas

Q—That is an excellent idea But we have heard an official of the Punjab Government who gave us a formula which is approximately based on the value of service principle He says, 'take the increased produce for an acre of the land; deduct from it the cost of cultivation and all that is left is due to the application of water; and the Government has got power to take that' On the other hand those who are against the increase in the rates in the Punjab say that the Government is entitled to charge only a fair interest on the capital invested on the canals, allowing something also for maintenance and other charges and no more They say 'everything over and above this is in the nature of monopoly charge and the Government are using their position as monopolists to tax us' Again on the other side, Mr King has told us that the rates are on sound economic lines Therefore, we have to determine whether they should be based on the value of service principle or on the cost of service principle

A—I disagree entirely with the application of the cost of service principle; because it is most inequitable as between district and district

Q—But people in districts where there are rivers and other natural advantages say, 'these are natural advantages that we have, why should we not enjoy the natural advantages, why should the rates be based on the question of what it would cost to take water to lands where there are not these natural advantages?'

A—It seems to me that if you differentiate between the two, you are going to upset entirely the agricultural equilibrium in the province If in the canal areas you give water at rates that makes irrigation by wells more or less impossible, then you are going to affect very seriously these well-irrigated areas.

Q—Would it be wise if the Government of the Punjab should lay down certain principles on which the canal rates might vary, just as they have in

the case of railways, that is, lay down certain maxima and minima? The rates may vary according to the nature of the soil, the kind of produce and so on.

A.—Do you mean as between district and district?

Q.—No, over the entire province, just as they have different railway rates for the carrying of coal and gold.

A.—I see no objection to that whatsoever. But it will be perfectly futile You will never have any raising of the water rates through your Council. It will have to be done by an executive order and the Government may as well fix the particular rate that it desires rather than often change it by having a maximum and minimum I do not think there is anything to be gained by it

Sir Percy Thompson. *Q.*—Is not the question of irrigated land quite different from that of railways? Everybody who wants to use the railway can use it, whereas the land is held by selected people and therefore Government holds this irrigated land in trust for the people as a whole

A.—Absolutely so This is what I was trying to get at when I spoke of inequality as between district and district

Q.—Suppose you are starting with an absolutely clean slate. Suppose the whole of the Punjab is desolate on which nothing could be grown But you had a lot of rivers and you could make canals and you could make the whole of that land fertile. As a matter of principle,—and probably as a matter of convenience—would you not say that the principle that the Government should adopt in charging the rates for the lands so irrigated is to take a proportion, anything up to 100 per cent., of the increased rental value of the irrigated lands? That is, without bothering about water rate or any other rate, just take a certain proportion on the values so created The economic limit of it is the whole of that increased value

A.—Starting *de novo*, yes.

Q.—I quite agree that it is impossible as it is, because you put canals through lands which have a value But is not that the sort of ideal which you ought to work up to, *i.e.*, to take a proportion which you might fix as 50, 60, or 90 per cent of the increased value?

A.—This would be very difficult in practice at the moment because you have your land revenue and your rates separated

Q.—It seems to me to be an advantage rather than a disadvantage You take 50 per cent or 60 per cent of the increment and you have got a *fairly* definite principle.

A.—On the other hand historical circumstances seem to be all in favour of continuing the land revenue system We are not starting *de novo* and in the field of taxation more than in other fields, you are largely bound down by historical circumstances.

Q.—I quite agree But should you not apply your existing methods in order, as far as possible, to get a certain proportion of the whole increment which is due to irrigation?

A.—Yes

The President. *Q.*—Would you glance over those five principles which have emerged from our previous discussions? (The witness was given a paper containing the principles).

A.—The first is that 'irrigation enterprises should be treated as a whole, the more favourably situated schemes paying for the others' That I disagree with from the standpoint of principle But from the standpoint of administration, it may be the wisest scheme With regard to the second point, I make it much wider

Q.—What was intended to be brought out by that was that the zamindar should get back what he pays for his irrigation in further irrigation works.

A.—It does not seem to be so 'The irrigation enterprises should be treated as a whole, the more favourably situated schemes paying for the others'.

Q.—That is, there may be a canal that is giving good profits and there may be another giving poor profits You have to fix the same rate for both and level up as between the two That is what is intended

A.—But it does not matter so long as you are making a profit on your whole irrigation enterprise. I would not start a scheme if it is not likely to pay

its way. Even the Punjab canal schemes were likely to pay a very small profit at the beginning Eventually at least there must be the likelihood of its paying.

Q—Does not an irrigation scheme indirectly give quite a large return in railway fares and other ways, if not directly from land?

A—No doubt it does But I should be sure in the first place that, at least eventually, it is going to cover the cost of construction

Then it is said here that the rates should be uniform That again is from the administrative point of view But from the standpoint of principle, I would not approve of it

Q—Then you have the duty of water One cusec is supposed to irrigate 80 acres You have a variable rate based upon the crops grown The variable rate is adopted we are told, so that the raiyat should be able to pay when he has money in his hand

A—That is very essential especially in the case of sugarcane and other paying crops where the profits are high Besides it needs more irrigation

Q—On the principle that the railway regulates its traffic on the value of goods carried?

A—Yes Then 'the rates should be varied with regard to prices'. That is essential I have given you figures to show how much the cost of running the canals has increased Even with the recent increase of 65 lakhs which is now imposed, the revenue has only increased by 17 per cent I should think the cost of running the canals has increased by 40 to 50 per cent and we are only asking for 17 per cent additional revenue

Q—Can you add anything to these principles?

A—I think the principle in the early days in the Punjab was that of fixing the rates low with the idea of attracting settlers to the newly opened up areas In a recent communique the Government of the Punjab say, we have recognised a broad principle, it 'has abstained from prescribing for any crop upon any canal a water rate higher than that which has already for some years past been paid for that particular crop upon some one (or more than one) of the eight canals concerned' You may call this a principle, the Government of the Punjab does: I should call it the adoption of a rule-of-thumb method.

Dr Hyder *Q*—You say 'I have no objection to the imposition of heavy taxes upon smokers and drinkers, but it is futile to say that it "imposes no economic burden"' Does it mean the same kind of burden to the tax-payer as in the case of income-tax?

A—A similar one I understand by 'immoderate' a fellow whose demand for either tobacco or for whisky is non elastic and though the price goes up very considerably he will still continue to consume the same amount; and therefore I say there is an economic burden

Q—Would you consider the Sikh community should be considered to bear any burden in respect of the tobacco duty?

A—No They do not smoke. If any community does not smoke, it does not bear any share of that duty.

Q—And if a third community reduces its drinking because the excise duty was raised, its burden would be lessened?

A—Yes. But at the same time they have contracted their consumption and that contraction of consumption must have involved for them—once they have become accustomed to the commodity—a certain amount of disutility. Now take the case of tobacco Every time in India they raise the tobacco tax, I make up my mind to stop smoking. If the disutility involved in contracting consumption is very much greater than that of paying the additional 10 per cent. by which the tax is raised, I go on smoking But to say that the tax on tobacco involves no economic burden seems to be perfect nonsense. Again in Q. 48 of the questionnaire the same author says, 'The rule that necessaries should be free and that indirect taxes should fall only on luxuries is thus a counsel of perfection not always attainable; in a country where three-fourths of the population consume no luxuries, the majority can only be taxed through necessaries and in these circumstances there is no hardship in such a tax'. That is nonsense, from the economic standpoint. In other words, if the whole taxation of a country is on the necessaries, there would be no hardship in the whole scheme

of taxation Is that not nonsense? The word 'hardship' is unscientific from the economic standpoint.

Q—I agree with that But may I take your answer to Q 25 wherein you say 'the Sikh community would have to be omitted in considering the tobacco duty. You would never place any considerable part of the customs duty collected on imported whisky on the Jat Sikh section of the community in the Punjab, although they are consumers of liquor; nor could you apportion any part of the revenue collected from *bhang* or *charas* to the English section of the community'

A—If you want to get at the real incidence as opposed to the nominal incidence, you must get at the people who really consume the commodities that are taxed.

Dr Paranjpye. Q.—Do you think that a man who escapes a tax of this kind is really not doing his duty as compared with the other who pays?

A—I do not look at it from the moral standpoint at all. I am not at all concerned with that. All I am concerned with is, it may in some cases be better for him to cease consumption; in the other case it may be better from the purely economic standpoint to pay the tax. One may involve less disutility than the other and it is for him to choose

Dr. Hyder Q—What is your opinion with regard to question No. 31?

A—I am not familiar with any of them.

Q—Don't you know of the hearth tax in the Punjab?

A.—I do not know enough about it.

Sir Percy Thompson Q.—In answer to Q 15, you say 'The rural community believes that it is being taxed more than its fair share, and one of the most urgent problems facing the Committee is to devise means for getting more effectively at the trading and commercial classes I am rather surprised you say that, because I think you have said just now that land revenue is rent and it is something less than the economic rent, so that so far from its being burdensome, something less than the economic rent is charged. Now you can compare the rural man with the townsman He does not pay income tax; the townsman does As regards salt, tobacco, etc, he is on an equality with the townsman. How can it, therefore, be said that he is being taxed more heavily than the townsman?

A—I have said there that I do not consider land revenue to be a tax on rent But I do feel that there are many cases in the Punjab where land revenue becomes a tax on wages and profits

Q—How does that arise?

A—When your cultivation is beyond the margin of profitable expenditure

Q—Is it not that there are only a small number of cases where you have this?

A—We have a very large number of uneconomic holdings in the Punjab

Q—To relieve them would make it worse

A—It is rather a vicious circle. But I say you have got to level up by increased taxation on the urban community.

Q—Because the cultivators have uneconomic holdings, that does not mean that you should go and raise the tax of the townsman.

A.—Yes, I saw that

Q—I think you are in favour of a tax on agricultural incomes?

A.—Yes, on principle

Q—Do you think the tax on agricultural incomes is worth collecting in view of the political ferment that you create thereby?

A—I have said that it is one of the questions you have to face. I agree with it in principle but I very much doubt whether it would be politically wise to do it. I feel that this estimate of 16 to 20 crores of rupees is an over estimate, unless provinces like Bengal contribute much more than we are likely to get in the Punjab

Q—It has been said that a pretty fair estimate of the cultivator's income would be four times the land revenue

A.—In the Income tax Act of 1860 when agricultural incomes were subject to income tax, the index taken was twice the land revenue

Q.—Even if you take the income as four times the land revenue, there will be only very few who would come under the tax.

A.—It is a matter of expediency and I also think that if we impose income-tax on agricultural incomes we might lower the exemption limit in the case of the rural communities

Q.—Is it not difficult to have two exemption limits?

A.—From the administrative point of view, perhaps it is

Q.—I cannot appreciate the force of what you say from the administrative point of view?

A.—Different exemption limits for different sections must complicate procedure. You say that Rs. 2,000 is the subsistence level In other parts of the world the limit used to be around the subsistence level

Q.—In England it was the equivalent of Rs 166 a month before the War?

A.—But Rs 2,000 obviously in India is very much than the subsistence level for certain sections of the community, but let us see an European in India with Rs 166 a month, he would simply starve

Dr. Paranjpye *Q*.—What other tax does an European pay?

A.—It is difficult to make a summary at a moment's notice On tobacco (and the European smokes largely imported tobacco) he pays heavy duty—on cigarettes 75 per cent the Indian largely smokes Indian tobacco and pays nothing. With many Europeans imported drinks are a conventional necessity and they are heavily taxed Further the customs duties fall heavily upon the European because they tend to consume more imported articles than the Indian with a similar salary.

Q.—What proportion of your income do you pay as taxes to the country?

A.—I cannot say that without estimating

Q.—Do you think it is high or low?

A.—According to European standards it may be low, but with similar incomes I think the European pays more in taxation than his Indian brother

Q.—Do you know that the savings or pension of an European escape taxation in India?

A.—I think the savings made by the average European in India are small

Q.—What about pensions?

A.—How many people get pensions? Even then they are only indirect saving

The President *Q*.—You say something like a license tax can be imposed Is it not practically the same as the profession tax of the local body

A.—The license tax is now allotted to the provinces It is not imperial as it used to be

Q.—Would you like to collect it by the Income Tax Department and hand over the proceeds to the local bodies? The tax on incomes below Rs 500 might be collected by the local bodies, and above that it might be collected by the Income Tax Department?

A.—I think it can be conveniently done

Q.—You say that the problem which faces our Committee is to get at the real incidence of the Land Revenue You say, what is in theory a rent charge by the State may become a tax on the wages of labour and the profits of capital You do consider that it may become a tax?

A.—Yes, but not a tax on rent Von Thunem pointed out almost a century ago that in agriculture very light taxation may lead to stagnation There are thinkers in the Punjab who believe that if Government were not so lenient, there might be a greater tendency to increased production One of the reasons for lack of progress, they affirm, is that people are so lightly taxed and if they are taxed more, it would tend to increased production also

Q.—Does this refer to land taxes or all taxes?

A.—The German writer referred to land taxes

Q.—If you are going to pitch all taxation on the agriculturists at such high rates, they may give up their profession?

A.—Well, that is not my own personal opinion

Dr. Paranjpye. Q—What about death duties? Do you think that the levy of death duties would lead to discouragement of industry?

A.—The conditions in England and in India are essentially different from the point of view of productive capital.

Q—I do not say that death duties should be levied as additional sources of revenue. Supposing you want to do away with certain taxes and then levy death duties?

A—From the standpoint of theory I am certainly in favour of death duties, but I think it should be remembered that they are a tax on capital and not on income and India at the present time should take no steps tending to retard the accumulation of capital.

Q—Take the cotton excise duties, leave aside that the benefit will fall only on one province, supposing the alternative is either to do away with the cotton excise duty or to levy succession duties, which would be sounder? I think both will help in providing capital.

A—You suggest that the abolition of the cotton excise duty is to assist Bombay millowners. If it is not to assist the consumer through lower prices but simply to increase the profits of the millowner, I prefer the cotton excise duty to a succession duty.

Q—I simply give you an example.

A—If you put it in this way, that the abolition of cotton excise duties is to lead to the lowering of the prices, which would be shared by all the people, I may be inclined to say yes.

Q—Supposing the alternative before you is do away with the salt duty, would you advocate the abolition of the salt tax and the substitution of death duties in its place? Which would have better effects from the economic point of view?

A—That seems to be a question which would require most serious consideration. The salt duty does fulfil a purpose. I think you want your taxation to go down even to the smallest man throughout the whole country. I do think the whole community should contribute something to the State. They have an interest in the State, even though it may be small, therefore, I would say the imposition of succession duty cannot be taken as an alternative to the existing salt duty. I think it is a very big question to answer.

The President. Q—May we take up another suggestion, that is, taxing tobacco; would you prefer taxing country tobacco to taxing salt on the basis that one is a luxury and the other a necessity?

A—I think I would. You have to recognise that there are some sections of the community who do not touch tobacco. But I cannot justify this exemption of Indian grown tobacco from taxation, it is preposterous.

Q—It was suggested by the Government of India that you should take agricultural income into account in arriving at the rate of tax on non-agricultural income, but you should not impose income-tax on the actual agricultural income?

A—I do not think that meets the case.

Dr. Hyder. Q—You say that the State is the owner of the land and therefore it is entitled to take the economic rent on the land?

A.—I do not think I have said anywhere that the State is the owner of the land, but the State in India has all along regarded itself and still regards itself as a joint owner of the soil. This is certainly acknowledged by the Punjab Government throughout. It seems to me in the quotations I have given from the Punjab Settlement Manual, that the State has definitely stated that it is a joint partner in the business of production and is entitled to the share of the produce.

Q—I want to get behind the Punjab Settlement Manual and ask you on what authority?

A.—I think it was so in the Sikh times and in the Muhammadan times.

Q—I am putting you this question as an economist, if you can get at any authority on which such a claim is made. Was it so in the Muhammadan or in the Sikh times?

A.—In the Sikh period it was definitely so, and the share taken by the State during the Muhammadan period was very much greater than it is now.

29th January 1925.

Lahore.

PRESENT :

Sir CHARLES TODHUNTER, K C S I , I C S , President
Sir PERCY THOMPSON, K B E , C B.
Dr R P PARANJPYE
Dr L K HYDER, M L A

Mr. A. MITCHELL, I.C.S., Income-tax Commissioner, Punjab, was examined.

Written memorandum of Mr. Mitchell.

As Commissioner of Income tax for the Punjab, I have been required by the Punjab Government to give evidence before the Indian Taxation Enquiry Committee I received the questionnaire on the 17th January, and have, as far as I am able, prepared answers to the questions dealing with income tax, Nos 33 to 47

I would point out, however, that my connection with the Income tax Department dates only from two months back, and I have not, therefore, yet had time to make any serious study of the subject

Q 33—The only justification for an increase in the rates of income-tax, purely as a substitute for other taxation abolished, would be that the taxation abolished was such as had normally been paid by the same class of tax-payers as pay income tax

The incidence of the main heads of taxation in the year 1921-22 was as follows* —

	Crores	Percentage
Direct taxes—		
Land Revenue	34 87	25 8
Income-tax and Super-tax	25 12	18 6
Other direct taxes	87	6
Total direct taxes	60 86	45
Indirect taxes—		
Excise	29 62	22
Customs . .	32 52	24
Stamps . . .	11 12	8 2
Registration . .	1 14	8
Total indirect taxes	74 44	55
	100	100

* Findlay Shirras' "The Science of Public Finance"—Table XXIV of Appendix

The reduction or abolition of land revenue would not justify an increase in income-tax on the incomes at present subject to this tax.

I do not think that the majority of incomes at present taxed would receive much relief from the reduction in indirect taxation such as excise Reduction or abolition of customs would probably afford some relief to income-tax payers, but not to an extent that would compensate the tax-payer for the imposition of increased income-tax.

ib tax-payer finds direct taxa- taxation spread imperceptibly be asked to pay as a direct however small the town and will always prefer a cumbrous octroi system to a simple house or property tax.

Q 34—I consider the present scheme of graduation suitable to the conditions in the Punjab The differences in the British system are—

(*a*) A higher initial limit under which no income-tax is taken

(*b*) Differentiation in favour of a married man with a family

(*c*) A much more rapid rise in the rate once the taxable minimum has been passed

The justification for the difference in Indian practice appears to be—

(*a*) I think I am right in saying that in Britain the average person, on an income below the taxable limit, contributes more regularly than in India to the State revenues fr... such as the Post-office. In tl... with an income below Rs 2,00... or drugs, it is difficult to see... except a very small amount ii...

(*b*) Such a differentiation would take effect in so few cases in India that it would serve no useful purpose The customs of the two countries differ also to such an extent that the differentiation suitable in Britain is unsuitable in India Even apart from the ... of the Hindu joint family, an inc... the income of the family than of... time, that it makes little differ... persons dependent on the income whether the individual head of the family at the moment is a married man with children or not

(*c*) Income-tax is still so new in India, and its accurate assessment and collection still more so, that the tax-paying classes are not yet educated up to paying the very high rate of income-tax prevalent in Britain once the limit of £1,000 per annum is passed. Furthermore the high rates at present prevalent in Great Britain are still due to the effects of the war, and it would probably be admitted in Britain that rates nearer the present Indian standards are more reasonable in normal times Very high rates of income-tax are usually regarded as a suitable expedient for raising revenue in times of grave national emergency.

Q. 35—I have no experience of the great commercial centres, but so far as the Punjab is concerned, I do not consider that any such differentiation is practicable

I am not aware exactly how the line is drawn between "earned" and "unearned" incomes in Great Britain, but in the Punjab presumably "unearned" incomes of any size are represented by—

(*a*) large incomes from agricultural estates;

(*b*) dividends from inherited capital invested in commercial enterprises.

(*a*) are not subject to income-tax:

(*b*) would largely claim to be income from "sums invested in productive enterprises" and so entitled to the same concessions as "earned" income

Moreover, money-lending is still one of the largest industries in the province. If a rich man with a large inherited capital makes certain loans to reliable creditors and receives interest regularly without maintaining a regular business staff, the interest would presumably be "unearned" income If a small village money-lender has small sums out at interest to petty debtors, and spends his whole time in his counting house occupied in the details of his money-lending business, the income would presumably be "earned" income It is difficult to see where the line is to be drawn between these two types

Unearned income in the Punjab would so often be income from investments in industrial enterprise, which it is the policy of the administration to encourage, that I do not consider it should be subject to extra taxation

Q. 36—No See also my remarks under (*b*) in my answer to question No 34

Q 37—The present form of super-tax on companies appears to be suitable

Q 38—No It appears to me that under existing conditions land pays its fair share of taxation (25 per cent of the whole), and though it seems anomalous that very large agricultural incomes should not pay tax at a higher rate, still there are certain considerations in regard to land revenue which may be set off against this anomaly. There are—

(*a*) Impossibility of evasion Land cannot be hidden, and as a certain revenue is attached to each plot of land, this has to be paid

(*b*) The very smallest agricultural incomes pay their share However small the plot of land some revenue is assessed and recovered thereon

(2) Without altering the conditions of land revenue altogether, and turning it into an agricultural income tax, it is difficult to see how a satisfactory discrimination against absentee landlords could be worked

(3) I have no means of estimating the figures

Q 39—I have no means of checking the estimate in question

Q 40—It would no doubt be more equitable theoretically to reduce the taxable limit nearer to the subsistence level, but in view of the experience gained in assessing income-tax directly, I doubt very much whether the fiscal gain from reducing the limit would be commensurate with the increased cost of assessment

In 1918-19, the last year on which incomes between Rs 1,000 and Rs 2,000 were assessed to income tax, there were 27,063 incomes below Rs 2,000 paying Rs 7,79,867 (*vide* Return No II of Annual Report of 1919 20) As the total number of assessees for 1918 19 was 45,935, the number of assessees was reduced by more than 50 per cent, and the remaining 18,872 assessees, paying 42 lakhs of tax, had by the next year increased to 21,063 paying nearly 45 lakhs The assessment of all these small incomes to income-tax can hardly have been worth the cost of assessment

Q 41—Up to the year 1921, I, as a District Officer, was concerned with the assessment of income tax From 1921 to the end of 1924, I had no concern with income-tax matters During the two months that I have now been in charge of the Income tax Department in the Province, I have been struck with the tremendous advance made in the accuracy of income tax work

(1) The number of assessees submitting correct profit and loss accounts duly certified by auditors is still small, but is steadily rising

New firms of professional auditors are coming into existence, but here again the progress is slow.

Accounts properly kept and audited are relied upon as the basis of assessment whenever possible An audit from an income tax point of view does not always give precisely the same result as an audit by a private firm of auditors, but in the cases that I have been able to go into so far I have found the difference chiefly due to the different points of view For instance, in estimating the profit and loss of a business an auditor naturally includes payment of income tax as a business payment, whereas the department must exclude it

A conservative business man might desire to feel that he was in an even stronger position than his balance sheet made out and might depreciate his buildings and furniture by 20 per cent or 25 per cent annually This would,

I presume, be accepted by auditors as evidence of sound business methods. The Income-tax law allows only certain defined rates of depreciation.

Speaking generally an auditor performs his duty best by the general public by showing the net profits of a concern as low as possible Income tax law does not admit of ultra-conservative estimates.

(2) The improvement in accuracy of assessment due to the establishment of the specialised Income-tax Department is enormous. Five years ago the work was in the hands of the ordinary district administration, already fully occupied with other branches of the administration, and without any knowledge of or training in accounts To-day the Income-tax Officer has no work beyond that of assessment, and is in most cases a trained and specialised expert in the reading of accounts In any system of direct taxation honesty must always penalise itself, but the present system of examination of accounts is rendering it daily more difficult for dishonesty to pass undetected

Q 42—I doubt whether the bulk of the smaller assessees are yet educated up to the standard at which they could be required to keep accounts in a certain definite form A large number still keep no accounts at all and assessment has to be ascertained by a percentage on total sales. Very great care is taken in working out these standard rates and checking them time to time, but the department would infinitely prefer to have accounts in any form

The Bill recently introduced into the Punjab Legislative Council for the compulsory registration of money-lenders and the prescription of accounts to be maintained by them would, if passed into law, be of immense assistance to the department, but the opposition met with in Council showed that the Province was not ready for a measure of this nature

Q 43.—I am not sanguine of the success of such methods in India In the present state of public opinion, I consider that the assessment proceedings are still looked upon rather as a game between the assessee and the department, and where an assessee was found to have scored off the department, I think the public opinion of fellow assessees would commend him as an astute player in the game, rather than condemn him as one who had defrauded the public in general I may be wrong but that is my impression

Q 44—I do not think that in India the question is of very great importance from an income-tax point of view Although there is force in the contention that the effective rate of interest is higher in the case of the rich man, yet the device probably attracts the small investor who is saved the payment of a high rate of tax in the first instance to be recovered later after certain formalities and production of accounts and certificates

Q 45—Interest on dividends from securities is still so small a portion of the assessed incomes in the Punjab, that the question has not been raised before in the department The suggestion to collect income-tax by a special stamp duty on the coupon seems suitable

Q 46.—Yes. As long as the Indian rate of tax is in almost all cases less than half of the British, the Indian Income Tax Department is practically never called upon to give a refund under Section 49

Q 47.—The Indian system appears to me the simplest and the easiest to be understood by the assessee, especially the smaller assessee The old system of adjustment introduced in the Indian Income Tax Act of 1918 was an attempt to prevent injustice from undue fluctuation from year to year, but it was not understood by the assessee and was very unpopular

---

Mr. Mitchell gave oral evidence as follows :—

The President Q—You are the Income-tax Commissioner of this Province, and you have recently taken over charge?

A—Yes, Sir.

Sir Percy Thompson Q—In your answer to question No. 33, you have shown the incidence of the main heads of taxation, 45 per cent as direct taxes and 55 per cent as indirect taxes; and you also say that the only justification for an increase in the rates of income tax purely as a substitute for other taxation abolished, would be that the taxation abolished was such as had normally been paid by the same class of tax payers as pay income tax. Do you regard these proportions as sacrosanct?

A.—No, I have taken the actual figures. The ratio seems to be reasonable.

Q.—In England, I think the proportion of direct and indirect taxation has changed round since the War. Would it be necessary to increase the rate in substitution for some other tax which should come on the same people?

A.—I understood the question to mean that in the event of any tax being abolished, would an increase in income-tax be suitable to obtain the same revenue as before from the same persons who benefited by the abolition

Q—Is the present distribution of direct and indirect taxes appropriate?

A.—I think it is roughly appropriate.

Q.—You say that in the Punjab there is a very strong objection to direct taxation; how do you account for that? It is not the same with the people in the South of India?

A.—Some two years ago the new Small Towns Act came into force and the question of introducing the new constitution in the small towns in the district I was then serving in was taken up. In every place I found that the towns people would rather pay Rs. 10 in *chungi* or octroi spread over the whole year than pay Rs 5 as a direct tax.

Q.—Everybody tells us the same thing, but nobody explains why it is so.

A—I don't know exactly what it is due to. I made the remark the other day to a brother officer that the people had a very great antipathy to direct taxation, and his reply was that this was only natural as we all like to pay our taxes indirectly and not directly

Q.—Then, would you say that the standard of education is higher in the South of India than in Northern India?

A—It may be so The higher the standard of education the more one sees how much more one loses over indirect taxation which requires an elaborate establishment to collect it I cannot say exactly what is due to it, but while people uncomplainingly pay in octroi much more than they would usually pay in indirect taxation, still they pay it happily rather than pay a lump sum of even Rs 5 a year

The President *Q*—This is the view of the small people, that the big people, who form the administrative bodies, want to avoid taxing themselves. Is this not the view?

A—I think that this is true to a certain extent They do not trust the Committee.

Dr. Hyder *Q*—Is the dislike to direct taxation due to the fact that the Committee people need not have to pay taxes, while in the octroi they can get from those who cannot pay direct taxes?

A—I think the objection is universal, and in these small towns everybody from the top to the bottom objected to direct taxation, and said that they would prefer to have octroi. I think the majority of the people would not know who the actual assessing body was Human nature being what it is, they think that the people on the committee would not pay proportionately as much as the small people did The definite objection is to pay Rs 5 straight away, whereas in *chungi* they do not feel this

Q—Everybody thinks that it may be possible to escape from it?

A—Yes, it may be so

Sir Percy Thompson *Q*—You say with regard to the scheme of graduation that one of the differences in the British system is that there is a higher initial limit under which no income-tax is taken I should have thought it was necessary rather to justify the height of the limit of exemption in India, which is very much above the cost of subsistence In point of fact, the income tax limit of exemption for a single man is the same as for the married man Do you think the limit should be reduced?

A—My impression is at present that in the case of smaller incomes the expenses of collection would hardly be worth the result A very large number of assessees were let off when the exemption limit was raised in 1918.

Q.—Do you think that there can be a different limit of exemption in different places?

A—It can be done, but I think we have to take into consideration that there would be a lot of bad feeling The people may not see the logic of it

Q—Don't you think it is justifiable, apart from the administrative difficulties?

A—Yes, I think justification could be made, but it is going on very different lines from those on which we have gone hitherto You are going to begin to open up very many fields where discriminations of this sort could come in We have a good many payers living outside the large towns, for example, money-lenders and shop-keepers

The President *Q*—You point out that in the case of non-agriculturists in India with an income below Rs 2,000 and not addicted to the use of drink or drugs, it is difficult to see what contribution is made to the State except a very small amount in excise revenue on salt and tobacco Does he actually pay anything towards tobacco? You say that is the man who ought to pay, but later on in answer to question No 40 you say that the assessment of all these small incomes to income tax can hardly have been worth the cost of assessment. Would it be worth while to assess him to license tax?

A—I think income-tax will be better in that case. We investigate many cases and find that people have an income of Rs 1,800 or so, and they are let off If you are going to assess them at all, it would be wise to do so as a continuation downwards of the present income-tax assessment

Q—Would you adopt the old system where there was a fixed sum?

A—I do not think it is necessary now The justification in the old days was that we only knew an assessee's income approximately, now we are very much more accurate than in the old days

Q—Do you think that your department would be able to do this?

A.—I think they should be able to do it

Q—Is your staff very fully worked? We were told that they have no work for two or three months in the year.

A.—I would not say that, but I have come in at the end of the year If they do their work well, they may have some relief during some months of the year. At the present moment they are not overworked

Q—Suppose your work is increased by giving you power to assess such people, how much staff would you require?

A.—I have not attempted to work out the figures how much time it takes for a man to assess But speaking roughly, we should have double the number of clerks and in addition more officers

Q—Actually the examination of books would be very simple?

A—There must be some village money-lenders, etc, if they produce their books, it takes some time to examine them

Q.—There is at present some duplication of staff. The local bodies are beginning to employ pensioned officers to assess their profession tax. Would you take over the assessment and pay the money over to the local body? You would also secure for your department the list of the people who are paying profession tax?

A.—Yes, I think we could do the assessment. But the *haisiyat* tax goes far below our exemption limit.

Q.—Is profession tax below Rs 500 a good tax?

A—I introduced one in my last district There are people earning below Rs 2,000 who want roads, schools, etc, but were paying nothing either to the District Board or Government In the lowest grade it is a capitation tax

Q—Could you without much difficulty assess *haisiyat* tax on incomes over Rs. 2,000?

A—The Income-tax Department has to arrive at a decision as to what a man's income is

Sir Percy Thompson. *Q*—Suppose a man gets a salary and you only want to know his total income, you do not care a pin from where he gets the income, *suppose he has unearned income from dividends?*

A—As far as this province is concerned, the assessment of salaried officials has not so far been done so systematically, but we should have a formal assessment at the end of each year. We have now started a year ago a salary circle,

and the officer in charge makes a regular assessment in the same way as for business incomes.

Q—How do you proceed?

A—At the end of the year, every man is sent a form in which he is asked to fill in his income from salary and also any private income. If there is any private income, he will have to pay tax on that also.

Q.—Does it happen only in a small proportion of the cases?

A—I have not gone into the actual figures of the circle. If we take the ordinary British official, probably, if they have any incomes at Home, they keep them at Home.

The President. *Q*—Will there be any difficulty in finding out which class of *haisiyat* tax he falls into?

A—I don't think there will be any difficulty.

Q.—Would it be practicable to add profession tax to the income tax demand and recover it, and then pay it to the local body?

A—Yes, but we have no actual powers of collection.

Q—Assuming you are made the agents for the local body?

A.—It is possible. Even now, as it is, in the case of people who do not pay their taxes, we have to resort to the district authorities. As we have not actually got the collecting power, we do not want to take the responsibility of collecting profession tax. We have no enactment requiring us to inform the local bodies confidentially what a man's income is. But if there were any income-tax payers who should pay profession tax, we could tell the local body concerned, if this was made legal.

Q—Don't you think that *haisiyat* tax should be graduated?

A—We took the view in the districts that a man with an income over Rs. 2,000 was already paying progressive rates in income tax.

Q—Don't you think it is a fact that the general effect of local taxation is to tax the poor man more than the richer man?

A—I suppose it falls heavier on the poor man.

Q—The octroi falls on the poor man, and the rich house-owner pays no more in proportion?

A—Quite so.

Q—There is no sort of progression?

A—No.

Sir Percy Thompson. *Q*—Supposing I am running a business and I return my income as Rs. 5,000. I will tell you that you can charge at your highest rate, would you still require to know my total income?

A—The form we send to the assessee requires him to state the total income from all possible sources. That determines the rate of tax as well. Even if you have securities, etc., it will be shown.

Q—Supposing I say you can charge me at the highest rate?

A—There is the statutory obligation that you must state all the income from different sources.

Q—Would you really want to know the total income even if I say that you can charge at the highest rate?

A—Yes, we must know.

The President. *Q*—So it is perfectly easy to assess a *centime additionel* and collect it?

A—We always insist upon the form being filled in fully stating all the income. As soon as we find that the statement is correct, we come to a definite finding as to what the man's income is.

Q—Whereas you won't touch the overseas assessment, interest on security bonds and shares, etc.?

A.—We do that in the case of super-tax. We always find what a man's total income is.

Q.—Of course, the number of super-tax payers is smaller than that of income-tax payers.

A.—There is no great difference between the Rs. 40,000 and Rs. 50,000, where the super-tax begins.

Q.—You think there would have to be a separate assessment of the *centime additionel* on the tax from bonds and shares?

A.—Yes.

Sir Percy Thompson. Q.—In the case of practically all income-tax payers, you apply the super-tax procedure to get the total income?

A.—Everybody has to declare his total income.

Q.—If they did not do it, that would give you trouble for assessment?

A.—Yes, we only assess on the income directly assessable But in our ordinary procedure, we demand a return of everything whether it is taxable or non-taxable

Q.—In England except for the super-tax, we don't care about the person's total income.

A.—We do in every case ascertain the total income apart from the agricultural income.

Q.—Is that the same all over the country?

A.—I think it must be so.

Q.—You don't believe in family allowances Is there not less taxable capacity in a man supporting ten people than a single man?

A.—As far as my experience goes, an Indian who gets an income has to support a large number of cousins and various other relations I think in practice it would not be worth while, having regard to the actual conditions of Indian life.

The President Q.—Is marriage practically universal in this Province?

A.—I think it is so It is very unusual to find any man unmarried

Q.—With regard to question No 35, if the words "or of sums shown to have been invested in productive enterprise", had been omitted, would you have answered the question in the same way? Do you think there ought to be any distinction in the rate?

A.—My difficulty was to draw the line between earned and unearned

Sir Percy Thompson Q.—Would you not say that a man sitting in his armchair and drawing an income from securities, ought to pay more than a business man who gets the same income from his work? We don't find any difficulty in distinguishing this in England.

A.—Yes, I think so. But my point was I did not see that a very large number of unearned incomes would be found in India.

Q.—Don't you find that there are large unearned incomes in places like Calcutta and Bombay?

A.—I have no experience of the large commercial centres.

Q.—Do you get many applications for refunds?

A.—A lot of them are adjusted automatically, because if a person has a business income as well as interest on securities, he returns his total income and says what he has actually paid. We deduct from his total income-tax the income-tax levied at source

Q.—Supposing his whole income was tax-deducted. He will have to be exempted from payment?

A.—I think we would always issue a notice and make a formal assessment.

Q.—If tax is deducted at the highest rate, you still make the assessment and tell him if he has paid too much?

A.—I think there is hardly such a case.

Q.—I suppose you do not get very many such cases?

A.—No.

The President. Q—You say that the present form of super-tax on companies appears to be suitable? How do you justify super-tax? Do you know if there is any justification except that super-tax is paid by individuals on the whole of their profits, while a company pays nothing on the profits placed in reserve? It was felt that this was not sufficient justification in England. It was repealed only last year.

A.—I cannot give you any specific answer one way or the other.

Q.—I quite appreciate your argument that the land pays its fair share of taxation, and even on the smallest plot of land some revenue is assessed and recovered. You say that the land revenue which is paid by the agriculturist is regarded as rent and not as a tax. I think he has the use of a very valuable asset, he has got the use of land, why should he not pay for it? If you start a mill, the State does not provide you with the machinery, but here it does provide the agriculturist with the land?

A.—I think that is rather going back to ancient times Most men would say that the land was inherited from his father and so on I suppose that property in land was admitted largely because of the extra incentive it gave to the person concerned.

Q.—Is that not so when you find land revenue very small in proportion to the rental value?

A.—I was rather thinking more about the primitive time when the country was lying waste, and the people were encouraged to take up land and given some incentive to stick to it.

Q.—Don't you think that there is one more reason, we have been told by an official in the Punjab Government that income tax on agricultural income would affect something like 2,300 people or so in the Punjab, cultivators who possibly have an income of Rs 2,000?

A.—That aspect of the question certainly occurred to me If you take theoretically land revenue at half the net assets or even a quarter, I should doubt if you will get many people who are paying more than Rs. 1,000 a year in land revenue

Dr Hyder Q.—In answer to question No 40, you say "It would no doubt be more equitable theoretically to reduce the taxable limit nearer to the subsistence level" I should like you to tell us what exactly you mean by subsistence level It must vary

A.—I took it from the question I thought that it was assumed in the question that the Indian limit is higher in comparison with the subsistence level.

Sir Percy Thompson Q.—Can you suggest either legal or administrative changes which would help in making a more close assessment of the income tax? Do you ever institute prosecutions for fraud or evasion?

A.—Mr. Darling, who ran the department for the first three years of its inception, was rather averse to it in the early years. He did not want to launch prosecutions too soon, and one of the remarks he made in handing over charge to me was that the time had probably come when we should begin taking up some prosecutions The other day one prosecution was started in Amritsar, but it was afterwards withdrawn I think we shall certainly have to start prosecutions before long

The President. Q.—You impose a penalty?

A.—Yes

Q.—How?

A.—A penalty equal to the amount of the tax may be imposed It has been used to a small extent. When the assessment is made, a notice is issued to the man and he is given two months' time. If he does not pay within this period, the Income-tax Officer begins to impose a penalty Thus, before we give up our attempts and hand over the case to the District Officers, we can double the tax.

Q.—That is the penalty for delaying payment?

A.—Yes But I have been struck with the regularity with which people now pay within the two months

Sir Percy Thompson *Q*.—Can you impose any penalty for the concealing of income and deliberate evasions?

A.—Yes, there is section 28 of the Act.

Q.—Is that power used?

A.—Yes, to a certain extent

Q.—What is the penalty?

A.—A penalty equal to the amount of income-tax which would have been collected.

The President *Q*.—Does the penalty of refusal of appeal still stand? Under the previous Act you could refuse to hear a man who did not submit his returns within a certain time.

A.—Yes No appeal lies if a man has failed either to submit his return or to produce his accounts when called upon

Q.—That is a strong power?

A.—Yes.

Sir Percy Thompson *Q*.—With regard to question No. 42, is there much evasion of income tax by money-lenders?

A.—Yes Even people who show their accounts generally under-declare in the first instance.

Q.—And there was a Money lender's Registration Bill recently introduced. What was the position with regard to the Bill?

A.—I really could not tell you straight away.

Q.—If it is passed, it will help you?

A.—Yes, considerably.

The President. *Q*.—Is there any recognised system of accounting?

A.—Mr Dalip Singh will tell you about this He is rather an expert in the matter.

Q.—With regard to question No 43, you do not think that action of the kind suggested would tend to encourage public feeling against the person who evades income-tax?

A.—I do not think so.

Q.—With regard to question No 44, is it not enabling the profiteer to escape the tax for the rest of his life?

A.—Yes I suppose that would be the result. But here in India investment is still such a small item that tax-free securities do not matter The real investment is money lending

Dr. Paranjpye. *Q*.—What is your experience? Are income-tax free securities actually held by men who are liable to super-tax? Do the returns that you get show that the people who are likely to be liable to super-tax hold a large number of these tax-exempt securities?

A.—They are not free from super-tax.

Q.—I mean those who are likely to be highly assessed.

A.—I have not looked into that point

Sir Percy Thompson *Q*.—Is there really much evasion in the payment of income tax from bearer securities?

A.—I cannot say.

Q.—With regard to the stamp, it will have to be at the highest rate of income tax and super-tax?

A.—Yes.

Q.—With regard to Q 46, you say you are satisfied with the provisions regarding double taxation Do they work smoothly in practice?

A.—At the present rates, we only come in when the Indian rate of tax is more than half the British tax.

Q—Have you not to give certain certificates before the British authorities deal with the man?

A.—I never had a case, except one which was entirely on the wrong lines. I have not seen a case of actual double income-tax, and it is never likely to occur, I understand.

The President Q—Have you any trouble with your adjacent Indian States with regard to double income-tax?

A.—No It is just beginning The only case so far is with respect to the salary of Government officers serving in Indian States, and the Government of India has given a special concession that these officers serving in the Indian States have first got to pay their income-tax to the State, and then they pay the British Indian income tax The British Indian Government refunds to them what they pay to the State, so that altogether they do not pay more than what they have to pay on their salaries in British India

Sir Percy Thompson Q—With regard to question No 47, you say "The Indian system appears to me the simplest and the easiest to be understood by the assessees" Do you think that your system with all its varying rates and complications is simpler than the English system?

A—I would prefer the English system on the whole As it is the difference in tax between a man getting Rs 1,950 and Rs 2,050 is very great

Q—You prefer the system of assessment on the previous year's income?

A—Yes

Q—You say "The old system of adjustment introduced in the Indian Income tax Act of 1918 was an attempt to prevent injustice from undue fluctuation from year to year' Is it not still existing?

A—It has been done away with

Q—Why?

A—Supposing we are making assessment for 1924-25 on the actual income of 1923 24 Suppose the income for 1923-24 was Rs 5,000 Now we assess on that for 1924 25 Then in 1925 26 you find that the actual income for 1924-25 was not Rs 5,000 but, say, Rs 10,000 Therefore, you assess on Rs 10,000 for 1925-26, and, say, that as last year the income was Rs 10,000 the assessee must pay now the difference in the tax on Rs 5,000 and Rs 10,000 Then if it went back to Rs. 5,000 the year after you pay on the Rs 10,000, at the end of the third year you would get a refund It was very cumbrous and people did not like it

Dr Paranjpye. Q—Do you think that the present income tax machinery will be suitable for collecting death duties or succession duties if levied?

A—It would be a separate branch and we would have to ascertain the capital value of the estate As we find out the man's income from year to year we would be in a better position to arrive at his capital than a new department. Otherwise it will be entirely a separate work

Sir Percy Thompson Q—Would you have information as to his securities?

A.—Yes

Q.—As to his land?

A—No; but we would be in a better position than an outside department.

The President. Q—You will know about his capital on business, only movables and lands will have to be valued?

A—Yes

Dr. Paranjpye Q—You charge on rent of houses and so you will also have house values?

A—Yes.

Lala DALIP SINGH, M.A., F.R.E.S., Income-tax Officer, Amritsar, was next examined.

Written memorandum of Lala Dalip Singh.

Q 8—During 1920 I had collected family budgets of 189 persons of middle and the lower classes residing in a town and in villages, including shop-keepers, teachers, clerks, farmers, and labourers After inspection of the homestead and its inmates, and after detailed cross-examination, I had filled up a form which was designed to express in money the income from different sources, expenditure on different items, such as food, clothing, necessaries and luxuries, property, indebtedness, name, age, caste, residence, occupation, and the number of members of the family.

(I had examined residents of one town and eleven villages of a district in the Punjab In a country like India, where only six per cent of the population knows the three R's economic enquiry or research is a matter of no small difficulty. People are generally unwilling to disclose the details about their income and expenses)

I think that the statistics given in Annexure C are fairly reliable to form the basis of an estimate of the incidence of taxation on different classes

Q 16—Yes, when any public authority in carrying out a work of public utility, incidentally confers value in a peculiar degree upon certain pieces of property, it has been admitted in law in many countries, that a special public charge should be imposed upon the value thus incidentally created, which, since it is produced by the public authority, has been adjudged as belonging in a sense to the community It should be in the shape of a betterment tax The betterment tax is levied in Germany and England. The scheme can be formed by a committee appointed for the purposes

Q 33—In the event of a substitute being required for other taxation that is abolished, I would propose an increase in the rates of income-tax. I would apply it to incomes above Rs 10,000. The statement given in Annexure E shows that the percentage of income taken in taxation above incomes of 1,000 sterling in India is less than the percentage of income taken in taxation in England, Austria and France The principle of equity in taxation is the principle of causing equal proportional sacrifice among the tax-payers, and taxation, which embodies the principle of proportional sacrifice, must be progressive, that is, the higher the net income of a person, the greater must be the rate at which he is taxed

Q 35.—There must be some differentiation in favour of earned incomes or of sums shown to have been invested in productive purposes It is very necessary to make a difference between earned and unearned incomes in a scheme of taxation Comparing two individuals one who derives, say, Rs 10,000 a year from a perfectly safe investment in the funds, perhaps accumulated and left to him by his father, and on the other hand a man making the same nominal sum by personal labour in the pursuit of some arduous, and perhaps precarious profession, or some form of business, to say that these two people are, from the point of view of the State, to be taxed in the same way, is, to my mind, flying in the face of justice and common sense

The question may arise as to how to differentiate between an earned and unearned income Of course, it is very difficult to draw a hard and fast line between the two The test whether a given income is earned or unearned may be described as follows :—

If it is derived from personal labour or from pensions, or from property forming part of the emoluments of office, or from carrying on a business or profession, and the recipient is actively engaged therein, and is not protected by limited liability, then such income is earned, otherwise unearned Another difficulty may arise in distinguishing between incomes which are either wholly earned, or partly earned and partly unearned, because there may be overlapping in dubious cases The most practical way of dealing with the problem is to confine the differential treatment to earned incomes which do not exceed, say, Rs 10,000 a year (In this connection I would refer to the Report of the Select Committee of 1906 appointed in England under the presidency of Sir Charles W. Dilke)

Q. 36—In the assessment of income-tax no allowance is made for the number of persons supported by the assessee, while this is not the case in England. It has been observed that in some cases, especially in the case of assessees having incomes of Rs 2,500 or Rs 3,000, this is a great hardship. If an allowance, say, of Rs. 1,000 is made out of the income of an assessee for every average family, it will not involve any proceedings of an inquisitorial nature. (But this personal allowance is very necessary in India, especially when the cost of living has risen very high)

Q. 37.—Assessment of super-tax on Indian companies in the present form should be continued At present super tax is levied on companies at a uniform rate of an anna per rupee, while the rate of super-tax on individuals and firms is on ascending scale up to a maximum of 6 annas a rupee The experience of the last three years has shown that this distinction has led to the formation of many bogus companies to avoid proper taxation and the problem to remove this anomaly is also under the consideration of the Central Board of Revenue I would suggest that companies should be assessed to super-tax at the same rates at which individuals and firms are assessed

In one case two brothers, who were carrying on business jointly and were being assessed as a firm, had formed a company and got it registered under the Indian Companies Act The share holders consisted of both of them and their two wives. In another case an individual had formed a company with his three sons.

Q 38—Under the provision of section 4 (3) of the Indian Income tax Act, agricultural income is exempted from the tax It is quite clear that this section was inserted for purposes of what will otherwise turn out to be a double tax Let us see by an example how far this theory holds good now Jhanda Singh is a landlord and possesses 10 *murabas* of land in the Lyallpur district He has given 5 *muraba* to a farmer on *batai* (participation) system and 5 *murabas* to Basanta Singh another farmer, on contract for six years at Rs 2 500 a year who has again given it to another farmer Jhanda Singh pays the land revenue The farmer who cultivates the land and also Basanta Singh do not pay any tax to the State Thus the distribution of tax is not proper

Again as the land tax at present is levied there is neither equality of sacrifice nor equity in its incidence It is assessed upon each acre, according to fertility and other conditions irrespectively of the ability of the owner of land to pay

There is not the least doubt about the fact that the landlord class is not making proper contribution to the growing expenses of the State, although they have undoubtedly grown prosperous during the last 25 years In this connection it will be interesting to mention that the land revenue demand of the Punjab (440 lakhs) gives an average of Rs 2/6 per head of the rural population or Rs 10/11 per family, while the income tax demand for the province works out to Rs 3/3 per head of urban population or Rs 14/5 per family The income of landlords derived from agriculture and subject to permanent settlements must be taxed Incomes of small peasant proprietors who cultivate land with their own hands should be exempted Net income of the absentee landlord or the money lender, who has become a landowner through the foreclosure of a mortgage, must be assessed to income tax Income from *jagirs* (land revenue assignments) should also be assessed

During 1921 22 and 1922 23, I was posted in the Lyallpur district (Canal Colony). The prices of grains during that period had gone up enormously Most of the big landlords of the district who get grains of several thousands of rupees every six months, had kept stock with them at harvest time, and had sold it later on at a very higher profit There is no reason why they should not pay proper contribution to the State expenses

Q 40—It will be fair to reduce the limit in the case of income-tax to something nearer to the subsistence level, say, Rs 1,000, in case this sum of Rs 1,000 is altogether exempted as mentioned in reply to question No 36

Q. 41—The introduction of a centralised and more efficient system of income-tax control has led to a fair assessment I may here quote from the Income-tax Report, Punjab, for 1923 24, "owing to accounts being kept on a more systematic basis, it was possible to determine exact profit or loss in 2,466 cases as against only 1,365 in the year before"

The assessment of income tax during the last two or three years under the present department has been fair to both the public and the State In the

former income-tax reports it is stated that the small man tends to be over-assessed and the big man to be under-assessed Over 2,500 assessees, previously assessed, are no longer taxed *In two districts alone, Montgomery and Multan,* nearly 800 were set free The work of the new department has been done with less respect of persons than perhaps was possible under the old régime In two years the number of those who pay super-tax has risen from 77 to 103, and of those assessed on an income of Rs 25,000 or more from 331 to 552 in this province

Q. 42—I do not think that any such scheme would be acceptable by the business community in this country, Indian nature being very conservative Mr Thornton had remarked in his report on agricultural indebtedness that the rural money-lender was keeping very irregular and incomplete accounts, and it would be very useful if he is asked to keep his accounts in a prescribed form Under orders of the Commissioner I had made enquiries from money-lenders in the Ludhiana district and none appeared to be willing for the same

Q 43—The adoption of the methods mentioned in the question will lead to great agitation and dissatisfaction in this country No business man likes to give out the secrets of his business even to his neighbour In spite of section 54 of the Income-tax Act, according to which all records are treated as confidential, representations are made to the Commissioner of Income-tax frequently that the subordinate staff should be instructed to see that nothing goes out of an Income-tax Office

The Chamber of Commerce at Delhi had represented to the Commissioner very recently that the accounts of an assessee must be examined in a separate cubicle, where no one except the examiner and the assessee should be allowed to enter when the examination is going on Income tax records should not be made public records in India, as is the case in American States

Q. 47—The present arrangement in regard to the assessment on the previous year's income is satisfactory The people are not so habituated in keeping regular accounts as to produce for inspection accounts for three years to find an average for assessment purposes

Qs 170 and 171.—The machinery of assessment consisting of local boards of officials and non-officials cannot be successful It would lead to more evasion and defective distribution of tax The richer, who generally have great influence, will be lightly taxed as was the case a few years ago, before a separate department was established for the administration of the income-tax The assessor should not be dependent for the retention of his office upon the favour of the people whom he assesses.

The Provincial Civil Service is at present divided into two branches—(1) Judicial and (2) Executive It should have a third branch—Revenue *Gazetted officers* in charge of assessment and collection of land revenue, income-tax, etc, should belong to the revenue branch of Provincial Civil Service When the separation of executive and judicial is complete, officers in charge of revenue work will be relieved of a lot of judicial work They will have ample time to attend to other duties. In small districts the income tax and excise or revenue administration can be amalgamated without any decrease in efficiency, and *on the other hand* it will decrease the expenses of the administration The expenses can in that case be divided between the Provincial and Central Government in proportion to the revenue received by each.

Lala Dalip Singh gave oral evidence as follows :—

The President. *Q*—You are the Income Tax Officer in Amritsar?

A.—Yes

Q.—How long have you been in the department?

A—I joined the department in 1921.

Q—What were you before that?

A.—Before that I was doing special work under the Department of Industries, Punjab

Q—You collected the family budgets of 189 persons?

A—Yes.

Q.—Did you form any opinion as to the proportion of the expenditure of these people that went in taxes?

A.—I collected 189 budgets of representative classes I divided the population into four classes, the labouring class, the middle class, the farmers, and persons having fixed incomes such as clerks and teachers.

Q—Did your analysis include an analysis of the amount spent in taxes in each case?

A—No; I did not include that

Dr. Hyder *Q.*—Is it one of the publications connected with the Board of Economic Enquiry or is it private?

A—I prepared it privately

The President *Q.*—Can you give us a copy of your paper?

A.—Yes, I can send it to you

Q—Have you formed any views as to the different taxes which affect different classes of the population?

A—From that enquiry I did not come to these conclusions, because I was not interested in that I was only interested in the economic condition of the people I have made enquiries twice, once when I was a student of the M A class and then again when I was working under the Board of Economic Enquiry

Q—Have you gone into the question of the proportion of an individual's expenditure which goes in taxes?

A.—No, I did not take that into account at all

Q—You ascertained the income and separated the expenditure items, and you allowed nothing for taxes?

A—As I was not interested in that point I did not consider it I prepared a form containing about 60 questions and I filled up that form in the case of every family

Q—But none of those questions touched the question of taxation?

A—I noted the amount which was spent in taxes, but I did not come to any conclusion

Dr Hyder *Q*—With regard to Q 16, you are of opinion that the State should take a share of the increase?

A—Yes I think that when there is an increase in the value of property the State is justified in taking a share of that increased value That has been admitted in every progressive country

Q—What share should the State take?

A.—I did not think it out, but I think that the scheme can be worked out by the Committee after some deliberation and study of taxation in different countries like America and Germany Now, take the case of irrigated land in Lyallpur and some other districts There the value of the land has enormously increased and that is due to the canal system I do not see any reason why the State should not take a share of that increased value

Q—What form should that share take—an annual charge, or a lump sum or a terminable annuity?

A—An annual charge

Q—Would you add that on to the water rate and land revenue?

A—Yes, it can be added to the land revenue

Q—Are you interested in the question of water rates?

A.—I am not

Q—You do not think it difficult to differentiate other improvements from the increase in value due to the application of water? No complications would arise?

A.—I do not think any complications would arise

Q—I suppose the effect of a rise in prices can be separately distinguished?

A.—Yes.

Q—Suppose the rate of interest falls; surely there will be an increase in the capital value of the land You would take that into consideration?

A.—Yes

The President *Q*—You propose an increase in the rates of income-tax. Have you compared the rates on higher incomes—the rate of income tax *plus* super-tax—with the total incomes?

A—I studied the figures which are given in the annexure The percentage of income taken in taxation in India on an income of £1,000, as given in the annexure, is less than that in England, Austria and France

Q—You say you would apply the increased rates to all incomes above Rs 10,000?

A—Yes

Q—In England when an income reaches £100,000 the percentage is 52 and in India it is 39 9 Would you incraese this 39 9? Your Commissioner says that very high rates of income tax are usually regarded as an expedient for raising revenue in times of grave national emergency But would you have that in normal times?

A—In normal times this is the maximum But under the present system incomes above one lakh are charged at high rates, but incomes above Rs. 10,000 and below Rs 40,000 are not so heavily charged

Sir Percy Thompson *Q*—In answer to Q 35, you say 'There must be some differentiation in favour of earned incomes or of sums shown to have been invested in productive purposes How are you going to administer that? How is it possible to find out what amount has been invested in productive purposes?

A—Of course it is very difficult to draw a hard and fast line between the two, *i.e.*, earned and unearned But we can find out whether it is unearned.

Q—How are you going to make an allowance on sums shown to be invested in productive purposes?

A—Some exemptions might be allowed in the case of earned incomes and after that we can apply the rate of unearned incomes

Q—Supposing my income is Rs. 10,000 and I invest Rs 2,000 out of it in productive enterprises The suggestion is that you are going to charge it at a different rate How are you going to work that?

A—There can be a section in the Act to the effect that unearned incomes would be taxed at a higher rate and we can exclude from the total income sums invested in productive purposes.

The President. *Q*—I think our question rather misled you There are two propositions One is to differentiate in favour of earned incomes Another proposition is, when a heavy tax is levied it is apt to make people save less; in order to counteract that, it is proposed that you should levy a lower rate of taxation so that money may go into production That is a quite separate proposition.

Sir Percy Thompson *Q*—In answer to Q 36, you say that an allowance of Rs. 1,000 should be made in the case of people with an average family. We have just heard that the present system works fairly equitably But most of the income-tax payers have to support a number of dependants.

A—My point is that under the Act there is no system of personal allowance. If I get an income of Rs 2,500 I have to pay income-tax on Rs. 2,500. But this is not the case in England.

Q—But in England there are some people who support families and some people who do not. If every income-tax payer has a family to support there is no point in making an allowance. It would be much better to raise the exemption limit when it is common to everybody.

A.—But now everybody feels that he is paying income-tax on every pie of his income There is no exemption at all I think there should be some personal allowance according to the size of the family. In the case of a Hindu joint family we can make a somewhat higher allowance and there must be a personal allowance in the case of every assessee

Q.—But surely you don't need it when you have different rates You get graduation either by exempting the first slice of income or by charging different rates according to the size of the total income. You have chosen to adopt in India the second method. But having done that there is no reason why you should adopt the other method too

A.—But I think it is better that there should be some personal allowance made; because in that case everybody has the satisfaction that something has been allowed for his expenditure

Q—With regard to Q 37, you say "assessment of super-tax on Indian companies in the present form should be continued" And you also say that the rate should be increased to 6 annas in the rupee—the rate which is charged on individuals and firms Then if I happen to hold shares in a company, I will have to pay income-tax and super-tax and the company has to pay the super-tax at the rate of 6 annas. So that I pay two super-taxes and one income tax. Is it fair?

A.—But we can have a clause added to section 48 of the Act to the effect that in the case of a shareholder of a company refund should be allowed on the amount of dividends, calculated at the difference between the rate applicable to his income and the rate at which the company was assessed to super-tax.

Q—Assuming that I am a millionaire and I have some shares in a company and the company pays income-tax on the whole of its profits, that falls on me as a shareholder Now you are going to put on a super tax and that falls on me. After that I pay my own super-tax Now, do you mean to substitute the super-tax on the company for the super tax on the individual?

A.—The individual can claim refund of the excess paid as a shareholder in the company

I can give you one instance Suppose I am a shareholder and the company is assessed to income tax and super tax under section 48 I can get refund on the amount of dividend calculated at the difference between the rate applicable to my income and the rate at which the company was assessed to income-tax We can apply the same provision for super tax If I have already paid more as a shareholder, I will get a refund here This is my suggestion At present there are many bogus companies formed In one case two brothers who were carrying on business jointly and were being assessed as a firm formed a company and got it registered under the Indian Companies Act The shareholders consisted of both of them and their two wives

The President *Q*—What Sir Percy Thompson says is this At present the individual who has shares in the company is subject to two super taxes and an income-tax That is the present practice

A.—He does not pay the super-tax at the same rate

Sir Percy Thompson *Q*—At present he has to pay income tax, super-tax, and super-tax on the profits of the company at one anna in the rupee

A—Yes

Q—What you propose to do is to raise the one anna to six annas So that I might have to pay income-tax at the maximum rate, super-tax at the maximum rate and super tax again at the maximum rate, *i e*, at the company rate

A.—The shareholder can get refund of the excess paid under section 48 as suggested above

Q—Do you mean that the rates of super tax should vary with the company's profits?

A.—The company should pay super-tax in the same manner as individuals and firms do.

Q.—Your shareholders consist of different people ranging from millionaires to almost paupers Why should the super tax be paid on the income of the individual? Surely it is very illogical to have a varying rate of super-tax on the company

A.—But at present there is this evasion. I have given you one instance of two brothers and their wives carrying on business jointly, paying super-tax at the rate of one anna only

Q—Surely it is hard to charge super-tax on the total income of four partners when the income of each is only one fourth of it.

A—That is why I have suggested that we should allow refund for super-tax to a shareholder as in the case of income tax under section 48 The shareholder can apply for adjustment and he can claim the refund of super-tax paid as a shareholder

Q—Suppose they do not distribute the dividends?

A—They cannot claim any refund if they do not distribute the dividends

Q—You are in favour of charging to income-tax incomes from agriculture?

A—Yes

Q—Do you think you can get any large amount of revenue proportionate to the trouble of collection?

A—I have not calculated the exact figures, but I think we can

Q—It is urged that there are 2,300 people out of 3½ million cultivators who would pay any tax on that basis in this province. Will it be worth while to collect it under these conditions

A—I cannot say at this moment; but I think that the bigger landholders have become prosperous and there is no reason why they should not pay more for the growing expenses of the State

Q—But it is a question of expediency You could not single out the bigger landholders and even that may be very troublesome and not worth while

A—I have already stated in my answer that the land revenue demand of the Punjab gives an average of Rs 2-6-0 per head of the rural population or Rs 10-11-0 per family, while the income tax demand for the province works out to Rs. 3-3-0 per head of urban population or Rs 14-8-0 per family.

Q—What is the deduction you draw from that?

A—That the landholder pays less revenue to the Government

The President *Q*—Why do you distribute the income tax demand over the urban population only? Are there not income tax payers in the villages?

A—There are very few as compared with the urban population I have taken the figures from the census report

Q—You say that the great bulk of the income-tax payers live in towns?

A—Yes, I do not remember the exact figures at this moment Take the case of the jagirdar. He does not pay income tax to the State.

Dr. Hyder. *Q*—For services rendered to the State in the past he is getting a certain income

A—But why should he not pay income tax on that reward or income?

The President *Q*—You treat the jagirdar's income as an agricultural income?

A—It is treated so in the present Act

Q—What is the section?

A—Section 2 of the Act—definition of agricultural income

Dr. Hyder *Q*—Do you assess these jagirdars to income tax now?

A—No; they are not assessed. I had issued notices to certain of them; but I received instructions that these incomes are not taxable

The President. *Q*—Could you give me the ruling

A—It is a note added to the instructions issued by the Government of India. It is in the Income-Tax Manual, "Assignment of land revenue to a jagirdar is not assessable to income-tax in the hands of the jagirdar." (P. 68 b I. T. Manual).

Dr. Paranjpye *Q*—Suppose a man gets money from the Government in the form of an allowance, do you charge it?

A—Unless it comes under the exemption granted by the Government of India, it is taxable.

Dr. Hyder. Q—With regard to this question, you say, that it is found that the rural money-lenders keep very irregular and incomplete accounts. Would you require the money-lenders carrying on business to keep their accounts in a regular form?

A—Yes, if it be possible

Q—Supposing they are made to keep accounts by law?

A—Yes, it would be very helpful to our department I made enquiries in the Ludhiana district about this, but the people were not prepared for this

Q—You say that no business man likes to give out the secrets of his business even to his neighbour Do you think our people are so distrustful of each other?

A—Certainly. I remember some time ago the Chamber of Commerce at Delhi had made a representation to the Commissioner that the accounts of an assessee should be examined in a separate cubicle, where no one except the examiner and the assessee should be allowed to enter Again no business man likes that secrets of his trade may be known to other people, because it is against his interest

Q—Does an assessee give you any information unless it is forced out from him?

A—He knows that if he does not give it, he will be assessed to the best of the judgment of the assessing officer So, there is no difficulty in getting information from him

Q—Have you not got a system in the Punjab known as the Sialkot system, under which the vakils and other classes pay a certain lump sum?

A—As far as my experience goes, there is no such system

Q—Do you know a book written by one Mr Pagar?

A—No At present I do not know if the system is in vogue It may have been in the old days

Dr Paranjpye Q—Do you receive many anonymous petitions?

A—In many cases we receive them and we keep them carefully, and make use of them in making enquiries Sometimes I ask my Inspectors if there is any truth in them. I do not throw them away as is done by other officers I found that in many cases they are useful

The President Q—What is your experience of the system of keeping accounts in the Punjab, do they keep regular day-books and ledgers? Is it a uniform system?

A—Yes

Dr Paranjpye Q—Is there one set of books for the income-tax officer and another set for themselves?

A—I have no experience of this I had no case of that sort I had cases in which people had different set of *bahi khatas* for different sources of income, that is, one for general merchandise and another for money-lending business.

Dr Hyder Q—Regarding these accounts, are they kept in one language? Surely it is difficult for the income tax people to find out the secrets of these traders?

A—No, at present every income tax officer is required to pass an examination in Hindi

Q—By Hindi do you mean, Lande or Nagri?

A—I mean Lande

Q—Since they have got to find out different secrets, your department must be surely an expert department in the science of deciphering these languages?

A—Even Muhammadans and Sikhs and other people keep their books in Lande There is not much difficulty in this I have discussed all the characters and the system of accounts in vogue in the Punjab in my book. Lande characters used in the Punjab are not uniform, we have got the Multani type, Mahajani type and so on The latter is common in districts like Ambala and Delhi

Q—What is the system of accounting among these people?

A—It is not very difficult, but there are some differences. The system of accounts is the same, they have got one *rokar*, one *khata*, etc. The system is the same though there might be some slight differences in characters used.

The President. *Q*—Are your officers fully worked?

A.—I think they are fully worked, but generally from February to March there is not much work for the officers except collection work.

Q—How do you deal with the outlying assessees?

A.—Generally an attempt is made to go to the headquarters of the tahsil and in some cases we go into the big villages where the assessees of the neighbouring villages also are called, and we examine their books there.

Q—In towns you discover the new assessees by house to house inspection?

A.—Yes, we have got Inspectors and we have got regular registers in which entries are made when the survey is done, and when there is any new case detected by the Inspector, he sends his report to the Income-tax Officer.

Q—How do you do with regard to the people outside the towns?

A.—The Inspector goes to the villages and finds out if there is anyone having taxable income, but paying no tax

Q—Have you got enough staff?

A—Yes, we have enough at present.

Q—Do the ordinary revenue authorities help you at all?

A.—Sometimes they give some information about the assessees, otherwise they have not got much to do with us

Q—Is there no standing order about this?

A.—As far as I know there is none Generally the Tahsildar is able to help us, as he more often visits the villages in his jurisdiction, and thus he is in better touch with the people than the Income-tax Officer. Therefore his help is always very useful.

Dr. Hyder *Q*—The lowest grade officer in your department is the Inspector?

A.—Yes There are Assistant Income tax Officers as well.

Q—How many officers do you have in each district?

A.—Take the case of Amritsar, it is divided into two circles, eastern and western, the whole town of Amritsar and the tahsils have been divided into two circles, and there are two Income-tax Officers, one in charge of each circle There is one Assistant Income-tax Officer and one Inspector in each circle

Q.—Is that so in every district of the Punjab?

A.—No, that is not the case in every district. In other districts there will be only one Income-tax Officer.

The President. *Q*—Can you tell me the average number of assessees in each district?

A—800 to each assessing officer. He is designated as Income-tax Officer. He is an officer of my standing.

Q—The assistants do not assess?

A.—They assess incomes up to a certain limit, say, Rs. 5,000 or Rs 10,000 They work under the Income tax Officer.

Q—How many Inspectors are there now?

A.—At present I have got 2 Inspectors and one Assistant Income-tax Officer.

Q.—You deal with 800 cases?

A.—No, at present I have got 1,200 cases.

Q—You and the other three altogether deal with 1,200 cases?

A.—Yes.

Q—That is only with regard to Amritsar?

A.—Yes.

Q—In other districts they have got one Income tax Officer and one Inspector?

A.—Yes, Sir.

Saiyid MUHAMMAD HUSSAIN, M.L.C., Shergarh, Montgomery, was next examined.

Written memorandum of Saiyid Muhammad Hussain.

Q. 10—Sales of land take place usually when some new canal project materialises, and all Crown waste lands then sold are debited to the capital loan account to extinguish the debt, quite apart from the land revenue. Trees in our province are the property of the District Board or Forest Department, or of private owners. Revenue from penalties is negligible. It only accrues from newly colonised parts by enforcing the rules.

Q. 11.—No

Q. 12.—Forest revenue realised from the grazing fee falls within the scope of tax, that from the sale of wood, if derived from the locality where the forest is situated, is a tax, otherwise not.

Q. 13—In all cases of the Government commercial or semi-commercial undertaking, endeavour should be made to secure the return on the capital outlay including the working expenses, *plus* something more in the form of a sinking fund to extinguish the debt, so that the burden of removing the debt be shared by the future generation as well Commercial return or monopoly profit should be deprecated In all cases where the utility is by the masses mostly poor the element of tax appear

Q. 14—There is an element of taxation in railways, tramways, etc., to the extent it is borne by the poor Circumstances have so changed in India that to earn the very livelihood one has to travel very extensively and the expenses incurred by the masses in that way have the incidence of tax

Q 15—The charge for the water supplied in the Punjab is adequate The net income derived from canals including the non-perennial channels is about 14 per cent on the capital outlay These canals were started by raising loans for two purposes (i) to check famines and poverty on account of the scarcity of rains, secondly to ensure the land revenue, which had to be suspended and remitted every now and then The result has been that besides the improvement of the economic condition of the people land revenue has doubled, trebled, and, in many places quadrupled, and the increase continues after every ten or twenty years It was originally meant to be a bare return on the capital outlay or even less It is now in the Punjab a tax levied on commercial basis and the recent unconstitutional enhancement has been strongly objected to and keenly felt by the agricultural population Land revenue increases by leaps and bounds in all irrigated tracts Between 25 and 50 per cent of the net assets is charged to zamindars after every ten or twenty years In irrigated tracts it is after ten years Having realised in land tax more than 33 per cent of the net income of a zamindar, there is no justification for the Government to charge more than bare cost of supplying the water including interest charges and sinking fund

I strongly advocate the charge by volume, having utilised it in that form, I am convinced that this system of supply will be conducive of great benefits to the Government and the public alike It must be extended to reach the masses and petty owners Unfortunately, it is discouraged, by the canal department

Q 16—When any waste land is brought under cultivation its land revenue increases after the expiry of the settlement and the Government realises their proper share from the land tax, the highest in the world There is no justification to charge betterment tax over and above the land revenue Besides, the number of big landlords in the Punjab is small, the system of primogeniture does not exist. Any imposition in the shape of betterment tax will press the public hard.

Saiyid Muhammad Hussain gave oral evidence as follows :—

The President. Q.—You are a member of the Punjab Legislative Council?

A.—Yes, Sir.

Q—You took a prominent part in the debate on water rates in the Council?

A.—Yes, Sir. I first gave notice to move in the Council a resolution but as there was a likelihood of a compromise, I did not move it I had a long discussion on this subject with His Excellency the Governor and the result was that he remitted 25 per cent of the whole enhancement. This was not satisfactory to all of us, and therefore another resolution was moved by Sardar Gurbaksh Singh I moved an amendment, which was unacceptable to Government, so the original resolution was carried unanimously, that the enhancement was too high, was uncalled for and unneeded.

Q—You say that the forest revenue realised from the grazing fee falls within the definition of a tax?

A.—The fact is that so far as I know in the Punjab there are certain lands in the vicinity of the villages which used to be formerly village lands, but somehow or other they became Government reserve lands and even the villagers are being charged, as distinct from the people who have not got lands in the vicinity.

Q.—I do not quite understand why you distinguish the people living in close proximity?

A—Because the people living in close vicinity to these grazing lands cannot take away their cattle anywhere else

Q—If the cattle came from a distance to the forest reserve, then you do not regard it as a tax?

A.—What I say is that with the people living in close vicinity, it is heavier. And whatever fee the Government may propose, they will have to pay it.

Q—How can they feed them in any other place without paying for it?

A.—They can go and ask the big zamindar to let their cattle graze in the private forests. Where there are private grazing areas and Government reserve forests, they will choose between the two, whichever they like.

Q—There is no tax where there is a private forest, is that so?

A—Sometimes the private owners charge and sometimes they do not. I have got my own private grazing areas, sometimes I do charge but sometimes I do not charge.

Q—Is the fee you charge higher or lower than the Government fee? What is the Government fee now?

A.—The fees charged by the private owners are always lower. It is different at different places, but it is not exorbitant.

Q—Supposing a man wants to grow fodder crops?

A.—There is no comparison with that, because it depends upon the rain and the number of cattle that are grazing. If you let loose a number of cattle in the Government forests, they consume it all in a few days, while in our own lands it is our property I have no experience of those forests which are situated in the hill tracts, but I am only talking about the forest reserves in the plains

Q.—What do they charge in the Government forests, it is only a few annas, is it not?

A—No, Sir It is a few rupees It varies according to the animals, lowest on the goat and heaviest on the buffalo. I think the goats are prohibited during some season also. I am talking only about Government reserves. Before the introduction of the canals the whole revenue of a district was from what is called *tirani*. The lambardar used to collect it Now the Government sells it by auction. Anybody might take the contract and then he could charge according to the prescribed rates.

Q.—Is there no limitation as to the number of cattle?

A.—There is no such limitation Before the introduction of the canal in Montgomery, there used to be only a few hundreds of cattle grazing in thousands of acres, but when the lands became irrigated only a few thousand acres were left for grazing and cattle from all parts come there, and the grass was exhausted in a few days.

Q—Government does not object?

A.—It was beneficial to the people who took the contract. There was no limitation whatsoever that beyond a certain limit no cattle should graze. Moreover

he would charge for all the cattle which were within the radius of a few miles, which the Government prescribes. In that case it was a tax; even though there was no grass, the tax was there Even if a man kept the cattle in his own land, still he was charged The contractors charged because they had taken the contract. In my own district sometimes there was rain and sometimes not, but the contractors were entitled to charge for all the cattle that were in close proximity.

Q—Under what Act he was charged?

A.—Under the Tirani Act The main source of income was through the *tirani*. Gradually as the lands came under irrigation, this began to fall.

Q—Is *tirani* a grazing fee?

A.—Yes. Nearly the whole district was a jungle sircar, those situated round the Government waste were liable to *tirani* fee even if they possessed their own lands.

Dr. Hyder. *Q*—Was it not a fact that *tirani* was a combined charge, grazing fee *plus* fee for taking out fuel from Government forests?

A—If we require fuel then we will have to pay a fee which is fixed at Re 0-4-0 per load or Re 0-8-0 or something like that Whenever we required fuel we had to take a permit from the tahsil by paying a prescribed fee, even for the *gobar* of the cow.

The President *Q*—Could you buy it from anybody else without paying for it?

A.—It was thought valueless, even for that people have to pay.

Q.—Could you get your load of fuel from any private person for a cheaper price?

A—There is no question of being or not being cheap, whenever we required it we had to take a permit, and then give cooly hire, etc

Q—Was it a price for the article which was bought from the department or a tax?

A—I would consider it a tax If there were zamindars, they did not charge. I remember Government also did not charge for a little quantity at the time when the whole district was a jungle The proprietor of the areas would never charge from the tenant or from anybody else, but the Government were charging it. When Government charges and the other proprietors do not charge, there is the differentiation.

Q—In the old days it did not matter, but now when there is a very large population, you have got to have some restriction?

A.—There is no question now I am talking of the old days when landed proprietors did not charge, but still Government did charge

Q—In the present day, if Government did not charge, the whole thing would be swept away?

A—Now Government cannot levy anything As soon as the lands were brought under irrigation, it has automatically ceased All those shrubs are at the disposal of the owners, and the lands have been let out.

Dr Hyder *Q*—You say in answer to question 13, that in all cases of Government commercial or semi commercial undertakings, endeavour should be made to secure a return on the capital outlay including the working expenses *plus* something more in the form of a sinking fund, etc I want to ask you whether you would like the Government to secure a bare return on the capital outlay or a commercial return or a monopoly profit In which case will the element of tax appear?

A—I have already said that in all cases where the utility is for the masses who are mostly poor, the element of tax appears

Q—How?

A—I would like to tell you, but the only thing I am acquainted with is the big canal projects of our country Capital spent upon them is a loan, Government raises a big loan and all the increment that accrues from the sale proceeds or from the water is credited to the loan account. Over and above that, Government gets a very heavy, at least decent, income from the land revenue What I think the Government should charge is the interest which

the Government has to pay on their capital *plus* working expenses and something in the form of a sinking fund so that in due course the burden of debt may be extinguished Beyond that it is very hard. In our province the percentage is very high

Q—Suppose a company subscribed capital and introduced a canal into your district, don't you think it would be a just and equitable charge if the proprietors of the lands and the company divided in some proportion the extra profit which is due to the application of water to the lands which produced nothing whatsoever previously?

A.—The extra produce is already shared by the Government. There are jungle lands in my own district and province As soon as the lands were irrigated, the land revenue varying from Rs. 2 to Rs. 8 per acre according to the development of the canal was coming to the Government. The same is the case in Lyallpur. Government is charging something between Rs 6 and Rs. 8.

Dr Paranjpye. Q—May I point out that Government did not get any income where the owners of the lands also did not get income?

A.—No, Sir 80 per cent. of the holdings or even more than that was Government waste Government either auctioned it or gave it to peasant proprietors and they got land revenue there

Q—Formerly these people were not making any profit, as there was no water?

A.—Certainly they made, because there were wells. In some places they derived a good deal of profit

Q—Suppose a man used to get only Rs. 10 per acre due to the application of wells, but now he gets Rs 50 due to the canal water, do you think that this extra 40 rupees should be pocketed by this man?

A.—It is not pocketed by this man

Q.—What I say is, assuming that some people had wells and so on, the man got Rs 10 as income from his land, but now after the canals were built, the man began to get Rs 50, do you think this Rs 40 that is produced without any exertion of that man should be left free. Don't you think that Government is entitled to get a reasonable share out of this?

A.—Government does take something out of this.

Q—I should say that Government is entitled to take the whole lot I am assuming 40 rupees net profit after allowing a margin for labour, supervision, etc, and for other out-of-pocket expenses?

A—I don't think so There are clear facts. Take the case of half a square holder. There are not many big landed proprietors here The petty landed proprietor who tills his own lands, take his case More than 80 per cent of the holdings are less than half a square. In such cases he has to put in labour, he is working on it with his wife and children. He has got 3 or 4 bullocks and they die very often, in that case he has to purchase new ones. He has to work day and night After working like this, the result is, that he has to pay out of his income the water rate and the other extortions Whatever is left, after paying the water rate, out of that the Government takes its share in the form of land revenue which the Government can take up to half net assets This is the same in the case of the smallest holder, also with the big land-owner Thus nothing is left for him even for bare existence Any cooly who works half as much time gets more On the other hand if you see the income of a poor cultivator, it is nothing when compared with a cooly. The Government does not make any difference between the small holder and the big holder

Q—Would not this land fetch the same income if it was rented by open competition?

A.—It might be. But what will the poor cultivator do? There is no other industry in the province to which he can resort. Agriculture is the main-stay of the whole province. What will he do? He is bound to work there to get his bare subsistence out of that.

Q—Suppose he takes service in the Army and he lets out that land and makes a profit of Rs. 50 when formerly he could have made only Rs. 10?

A—I tell you, Sir, that there are few people from these parts who go to take up service in the Army. They belong to certain specific places like Rawalpindi, etc, where irrigation is not introduced Even if people in these parts have any lands, they very seldom get anything out of their lands People who go to the Military service pay their land revenue out of their earnings from the service. But in the irrigated areas, people devote their time entirely to agriculture, that is the only industry and mainstay for their living There is no industry, as in England, on which people can depend for their living Agriculture is the only thing. Moreover poverty is considerable.

Q—Don't you think that if the man does not cultivate, even then it would fetch him some rent?

A.—Yes, only for those who have plenty of lands.

Q—Supposing there is a piece of land, has it not got a rental value?

A.—In the case of those who have some profession, it has got an economic value, but it has no value for the man who has to depend upon this profession alone, because he cannot go away leaving his land If I have an acre or half an acre, I have to pay whatever you ask from me, because I cannot live without it. You are taking into consideration the jungles which have been converted into cultivable lands, but the idea came to the Government after so much pressure was brought upon them that canals should be introduced Rainfall was very meagre, and the result was the Government had to suspend their land-revenue almost every year In order to avoid that and avoid the frequent famines, Government introduced inundation and perennial canals Now we have got canals and the result is that all the land revenue is coming in without any remission except in exceptional circumstances

Q.—On what principle should the water-rates be based?

A—I have already said that it should be to cover the interest charges, working expenses and a sinking fund to extinguish the debt. They are so much intermingled

Dr Hyder *Q*—I put it to you, that if there was a private company they would surely recover more?

A—If there was a private company we would not give any land revenue at all

Q—You give land revenue because the State is the part owner?

A.—No, I do not believe in that theory. Land-revenue is a tax pure and simple and it is the heaviest tax, because it takes half net assets from the income of the man and in many cases more than that

Q—More than half the net assets?

A—They proceed upon the assumption that if the man were to let his land, he will be able to realise so much income Actually here there are very few holders who realise rents

Q—How much do you think a man whose land is worth Rs 15,000 has to pay in the shape of land revenue to Government?

A—There is no fixed value of lands here It varies in different localities and in different places

Q—I dare say there are some squares which are worth Rs 30,000 or so

A.—The highest prices that come in are on account of the bid I want to say that the amount realised is due to their selling by auction, because those people who are debarred by the Land Alienation Act also come in and bid.

Q—Suppose a man has saved Rs. 15,000 from his Army pay and buys a piece of land, how much land revenue he has to pay to the Government?

A—It depends upon the sort of land that he would buy.

The President *Q.*—Would land sell at Rs 500 an acre?

A—I cannot give you an off-hand answer

Q—You were talking about these auction sales, can you tell us what prices they fetch?

A.—They vary from Rs. 100 to Rs. 500 an acre but there is no general principle in this Some men wanted to buy some particular land or they had a mania for a particular plot and were prepared to pay anything for those lands

Q—What is the land-revenue charged per acre, irrigated?

A—Usually they charge Rs. 2 per acre at the beginning After five years they increase to another Rs. 2 and so on till it has now gone to Rs 8 in some villages in Lyallpur.

Q—The auction is for undeveloped land, is it not? Suppose a man bought 30 acres for Rs 15,000 He pays only Rs. 60 as revenue but the price is Rs 500 per acre, is it not?

A—I do not think so.

Q—Suppose a man bought lands for Rs. 15,000 and paid Rs. 60 as land revenue, your statement that the land revenue paid in the Punjab is high will not stand. I will just read the figures obtainable in other countries. *Taking the system of tax in Australia, if a man has landed property in* Victoria, combined tax for the State as well as Commonwealth is 120, in New South Wales it is 144, in South Australia it is 110. in Western Australia it is 150 roughly, in Queensland combined tax is 187. Do you still think the tax is very high in the Punjab?

A—I shall give the actual figures so far as I know. I got 160 irrigated acres of land for Rs. 19,000 The land revenue that is realised on that will be Rs. 2-8-0 per acre, pure land revenue, now the settlement is going on, it might become more But even under the present calculation of Rs 2-8-0, pure land revenue comes to about Rs. 350. You will have to add the local rate of 12 pies per rupee, say about Rs 29, add to it water rates which are uniform throughout the canal area The water rate might be Rs 5 What does it come to? Even here I am talking only about irrigated proprietory lands This comes *to roughly Rs 1,000 This is what we surrender to Government at this stage*

Dr. Hyder. *Q*—How much will you make out of it?

A.—I can lease it only for about Rs. 800 or so It is a net profit to me. He will have to pay Rs 1,000 to Government and Rs. 800 to me. Thus you will see Government takes more than myself.

Q—How many squares?

A—It is 160 acres, about six squares

Q—Is it not really good?

A.—Well, Sir, I am talking of Gujranwala district

Q—I am talking of Montgomery district, where I am told they are able to get Rs 1,000 per square

A—A thousand rupees is a very rare rent. It is the maximum income which very few people get who have excellent lands and where water is very good You can count such people on your fingers I have not seen anywhere else people realising a thousand rupees These places, where a thousand rupees is realised, are excellent: they are situated in close proximity to the markets with all the facilities of irrigation, and very few fortunate people can get lands like that. Even in the Montgomery district, there are two kinds of lands, one is very good and other which is very inferior. You have to take into consideration all these things There are very few squares which bring Rs. 1,000.

Q—People tell me that many of their lands bring Rs. 1,000 even though they spend a very idle life.

A.—I know people in a village called $\frac{\text{Chak No. 201}}{\text{2L.}}$ who get this income. But there are other military grantees who do not get even their rental of 300 rupees per square in other places.

The President. *Q*—Is this land not fully developed?

A.—It has been fully developed; rather it is now reaching the stage of deterioration which is the necessary concomitant of waterlogging. Everywhere waterlogging keeps pace with irrigation

Q—Has it not been leased before?

A—It has not been leased in terms of money value. They used to get a third part of the produce. Last year I got less than Rs. 900. I spent a large amount of money on litigation also which went on for three years It

was land situated close to my land and there was the right of pre-emption. I only tell you that you should not make any hard and fast rule. I know some are getting a thousand rupees a square. But you have to take into account the thousands of military grantees who are not getting even Rs. 200 or 300 As a result of the protests of these people the Government had deputed an officer to find out their grievances and to mitigate them

Dr. Hyder. *Q.*—Are not lands in your district changing hands at from Rs. 10,000 to 30,000?

A.—In the same district I can give you cases where they went at Rs. 50 an acre Even now the Government is going to sell by tender some of the inferior lands and it cannot realise more than Rs. 50 per acre

Q.—In the Sutlej valley scheme the provision made is Rs. 400 per acre?

A.—Rs 400 in the irrigated tract and Rs 100 in other tracts. I own land in the Sutlej valley

Q.—Are not the people investing their money in land?

A.—The real fact is that the people are putting more money into land because there is no other industry in the province.

Dr. Paranjpye. *Q.*—Why do you put more money in the land?

A.—Because we know only agriculture and nothing else

Q.—There are Government securities.

A.—Our religion prohibits us from charging interest Muhammadans do not charge interest Therefore, the only way is to invest in land. In the first place they have no money to invest and if at all they have it, this is the only industry where they can invest For my part I do not know where to invest my money if I have any.

The President *Q.*—You are prohibited by religion from buying Government securities?

A.—We won't charge interest.

Q.—But you can invest money in commercial concerns.

A.—There are very few Muhammadans who have got any money. As a class they are very poor. They have no spare money to invest either in land or in Government securities Many of them go out and join the military or some other appointment.

Q.—What about the Attock Oil Company?

A.—I do not know anything about it I am not much interested in it.

Dr. Hyder *Q.*—As a Muhammadan, are you prohibited from investing your money in the shares of the Attock Oil Company?

A.—No, but why should I invest money in a place which I do not know myself? I know about it only this It is a purely commercial concern selling petrol here at a rate higher than that at which it is sold in England and we are making roads, etc, for those people. That is all I know of

Q.—If the agriculturists are so poor, how is it that they afford to go about in motor cars.

A.—You are thinking of a few Tudanas or some money lenders who can be counted on the fingers' ends, who own 10 or 12 thousand acres of land They can no doubt afford to run in motor cars But the majority of the population of my province—more than 80 per cent of the people—have holdings of less than half an acre The only income they get is by having a pair of bullocks and by doing some cooly work. A military grantee may have one square but the whole family has to depend on that one square The only industry I know of is having a pair of bullocks and plying a *gadda* or cart. I do not see how under these circumstances they can have any large amount of money.

Q.—In Q 15 we have given five alternatives for charging water rates Which of them do you adopt?

A.—Whatever the charges may be, they must be sufficient, as I have already stated, to meet the interest charges and the working expenses *plus* the sinking fund and not more than that, because there is already a very heavy land

Q—What is the land-revenue charged per acre, irrigated?

A—Usually they charge Rs 2 per acre at the beginning. After five years they increase to another Rs 2 and so on till it has now gone to Rs 8 in some villages in Lyallpur.

Q—The auction is for undeveloped land, is it not? Suppose a man bought 30 acres for Rs. 15,000. He pays only Rs 60 as revenue but the price is Rs 500 per acre, is it not?

A.—I do not think so

Q—Suppose a man bought lands for Rs 15,000 and paid Rs. 60 as land revenue, your statement that the land revenue paid in the Punjab is high will not stand I will just read the figures obtainable in other countries. Taking the system of tax in Australia, if a man has landed property in Victoria, combined tax for the State as well as Commonwealth is 120, in New South Wales it is 144, in South Australia it is 110, in Western Australia it is 150 roughly, in Queensland combined tax is 187 Do you still think the tax is very high in the Punjab?

A.—I shall give the actual figures so far as I know I got 160 irrigated acres of land for Rs. 19,000 The land revenue that is realised on that will be Rs 2 8 0 per acre, pure land revenue, now the settlement is going on, it might become more But even under the present calculation of Rs 2 8 0, pure land revenue comes to about Rs. 350 You will have to add the local rate of 12 pies per rupee, say about Rs 29, add to it water rates which are uniform throughout the canal area. The water rate might be Rs 5 What does it come to? Even here I am talking only about irrigated proprietory lands This comes to roughly Rs 1,000 This is what we surrender to Government at this stage

Dr Hyder. Q—How much will you make out of it?

A.—I can lease it only for about Rs 800 or so. It is a net profit to me. He will have to pay Rs. 1,000 to Government and Rs 800 to me. Thus you will see Government takes more than myself

Q—How many squares?

A.—It is 160 acres, about six squares.

Q—Is it not really good?

A—Well, Sir, I am talking of Gujranwala district

Q—I am talking of Montgomery district, where I am told they are able to get Rs. 1,000 per square

A.—A thousand rupees is a very rare rent. It is the maximum income which very few people get who have excellent lands and where water is very good. You can count such people on your fingers. I have not seen anywhere else people realising a thousand rupees These places, where a thousand rupees is realised, are excellent · they are situated in close proximity to the markets with all the facilities of irrigation, and very few fortunate people can get lands like that Even in the Montgomery district, there are two kinds of lands, one is very good and other which is very inferior. You have to take into consideration all these things There are very few squares which bring Rs 1,000

Q—*People tell me that many of their lands bring Rs 1,000 even though* they spend a very idle life

A.—I know people in a village called $\frac{\text{Chak No 201}}{\text{2L.}}$ who get this income But there are other military grantees who do not get even their rental of 300 rupees per square in other places.

The President. Q—Is this land not fully developed?

A.—It has been fully developed; rather it is now reaching the stage of deterioration which is the necessary concomitant of waterlogging Everywhere waterlogging keeps pace with irrigation

Q—Has it not been leased before?

A—It has not been leased in terms of money value. They used to get a third part of the produce. Last year I got less than Rs. 900 I spent a large amount of money on litigation also which went on for three years. It

A.—In determining the *abiana* you have to take into consideration all these circumstances together. But taking only one factor into consideration the Government should not take more than 14 per cent. and also increase the land revenue.

Q.—You would not limit yourself to the interest on capital cost, *plus* maintenance *plus* sinking fund? You take other factors also into consideration?

A.—Yes. But those are the main factors. Another thing is this: previously *abiana* was upon the cropped area; but now it is on the whole area sown.

Q.—But is not the present arrangement really a feature of the better developed system where the supply is guaranteed?

A.—No. The reason why the old system was abolished is that there was a great complaint that the subordinate staff of the Canal Department were charging a good deal on *kharaba*, favouring only those who paid them, with the result that the *abiana* is now on the sown area and not on the harvested area. Another thing is, water logging is increasing side by side with irrigation. You will find that there are a good many lands in which the yield is decreasing. Efflorescence comes on the surface or some other thing happens and the crop is injured. A third thing is, the canal department is extending irrigation and giving much less water than before. So really the zamindar gambles upon the rain water. If it rains he gets good crops, if it does not rain, most of the crop is destroyed I do not see why the Government should not introduce the volumetric system throughout the province If that had been done, a considerable saving would have been effected to the Government as well as to the public and a lot of inconvenience to the public would have been avoided. Unfortunately this system has been extended only to the big landholders. I strongly urge that the benefits of this volumetric system should be extended to all the petty proprietors

Q.—You would extend it to each individual holding?

A.—Yes. It is not difficult. The system can be extended to every body. Of course there was some trouble in the beginning but there is no trouble now.

Q.—Would that not be putting the zamindars into the hands of the patwari much more than before?

A.—No. The rate will be charged according to the quantity of water given

Q.—But who is going to distribute the water? It will be the ordinary revenue patwari Would he not make money out of it?

A.—If he is dishonest, he will make money, but at least half of the trouble will be over Now there are two persons who make money—the canal patwari and the revenue patwari So if both of them are amalgamated into one, half of the trouble will be over

Q.—Will not the one patwari now take double the amount?

A.—No, he will not Unfortunately the canal department does not want to extend the *system of distributing the water by the panchayats In fact* in the Punjab Act a provision is made that they are empowered to distribute the water themselves There are only a few of them now and it would be better to extend them throughout the province

Q.—Would not many murders result?

A.—Already there are murders and they will not increase, rather I think they will decrease If the revenue department and the Government really wish to help the public, if they are on the spot to distribute the water, to listen to the complaints and take summary action, I think the murders will surely decrease The water is now distributed among the people in some manner. There are quarrels; there are strifes But all these will disappear if the Government really wishes to make the system a success and appoint certain officers whose duty it will be to go to the spot and settle disputes then and there and most of these murders will decrease and a large amount which the Government spend on the prosecutions will be saved

Written memoranda of witnesses not examined orally.

Written memorandum of Mr. R. L. Bhalla, M.A., Income-tax Officer, Montgomery.

Q 33 and the following—The rates of tax should not be increased, but the scheme of graduation should be changed on the English system—allowance being made for personal expenditure and expenses on account of dependents. The scheme should, however, be kept as simple as possible, because on account of a general lack of education it is very difficult to explain to an ordinary tax-payer as to how is he being taxed even under the ordinary law. Indian capital is very shy, and the capitalist is just beginning to invest money in productive enterprises. A differentiation in favour of earned incomes is likely to result in a withdrawal of capital which is highly undesirable It is true that some proceedings of an inquisitorial nature shall be necessary for making an allowance for the number of persons supported out of a particular income, but the relief that will be obtained by the adoption of such a scheme will outweigh all the troubles due to such enquiries The pinch of taxation felt by a man supporting a large number of dependents is great indeed, and there is hardly a tax-payer who does not complain of the injustice of the present method The number of bachelor tax-payers is very small—practically speaking negligible—in India, where marriage depends not on the earning capacity, but the social customs of the people inhabiting the country.
are married long
egins to make an
, majority of cases-
pelled to support
relatives. Under

peculiar to India, should be adopted.

Direct taxation in every form is unpopular. But if every one is to bear the burden according to his capacity, resort must be had to it. Indirect taxation cannot lead to an equity in taxation, especially in cases where revenue is the sole aim of imposing a tax From the revenue point of view the best commodity to tax is a necessary for which the demand is inelastic But the consumption of a necessary is about the same among the rich and the poor, and hence everyone will be paying about the same sum Such a tax will not be in proportion to the income of the tax-payer. The incidence of tax in such a case will be heavier on the poor Direct taxation must come in to fill up the gap, but this also should be equitable

Considering the fact that well-nigh every assessee is a married person supporting a number of dependents, the adoption of a scheme of income-tax which is levied after making an allowance for the dependents would lead to a fall in revenue In order to make up the deficiency, the following taxes could be levied .—

(a) *A tax on tobacco.*

Of all the taxes that on tobacco is quite suitable. We cannot call it a necessary now can it be called a luxury *per se*. It is to many what the economists call a conventional necessary—something which is not a necessity but the consumption of which turns into a necessity on account of the habits and sentiments of those who use it It is suitable for taxation because a diminution, or the discontinuance of its use, will not deprive the consumer of a necessary of life or efficiency, and if the consumer desires, he can get rid of the tax by giving up its consumption Since the habit of smoking is widespread, and to a certain extent fixed, the demand for tobacco is fairly inelastic and will remain so.

provided the amount of the tax levied is moderate. The imposition of this tax is likely to result in a reduction in the area under tobacco and of the produce From a broad national point of view, the loss incurred in the pleasure of smoking tobacco at comparatively cheaper rates will be much less than the gain to the exchequer resulting in a fairer and more equitable burden of taxation Tobacco is always sown on the best land, and all of this land on which tobacco is not grown will be used for raising other important crops like wheat, cotton, oil seeds, etc, resulting in placing at the disposal of the consumer larger quantities of necessaries of life and efficiency.

This tax can be levied on tobacco in the field when it is sown at the rate of so much per acre Taxation in any other form will necessitate the employment of a costly administrative machinery In order to make the tax uniform, experiments could be conducted in various areas with regard to the production of tobacco and its cost of cultivation The prices prevailing in the area being known, the value of the yield per acre could be found out On the basis of this yield and value the tax could be levied The rate of tax per acre, if this method is adopted, will be different in different localities, but the incidence of taxation (per acre or per hundred rupees worth of tobacco produced) shall be the same. In order to calculate the rate of tax correctly the yield and value shall be calculated on the basis of the "previous year" as defined in the Income Tax Act of 1922, that is, for instance, the rate levied for the assessment of 1924-25 will be calculated on the actual yield and prices of 1923-24 The average yield per acre could be calculated by means of conducting experiments in the various localities and the cost of cultivation, in absence of reliable accounts (as is likely to be the case, at least in the beginning, for most of the farmers and zamindars are uneducated people, who cannot read and write and hence do not keep accounts) in the way in which it has been calculated with regard to sugar cane and other crops in my book "Report on an Economic Survey of Bairampur," Chapter VIII, pages 120 to 129 If a better method could be devised, so much the better and that could be adopted

The employment of an additional staff in Bengal will certainly be necessary for measuring the area under tobacco, conducting experiments, etc But the difference in the expenditure on the staff needed under any other scheme and the scheme regarding acreage duty will not be great In fact taking all-India staff that is to be required for the purpose into consideration, there may be some saving if this method is adopted

Imports from Indian States could be prevented by keeping a watch over such imports, and this work could be entrusted to the present Excise Department in the provinces coupled with the Income-tax Department If control regarding import of wine and opium from Indian States into British India can be satisfactorily exercised, it will be easier to do so in the case of tobacco A bottle of wine can be put into a pocket and opium worth several hundreds of rupees can be put into an equal space Tobacco, in any form, occupying the same space will not be worth much, and hence the desire or attempt to smuggle tobacco in small quantities will be much less than is the case with, say, opium or wine Smuggling in large quantities could easily be detected

Tobacco is grown by raising seedlings (*paniri*) in small beds, and then sowing in the fields [illegible] ground for curing After a week [illegible] [...]sted from the plant. It is ready fo[illegible] [...]n into dust, mixed with *gur* or molasses and smoked in the *hukka* As regards the imposition of an acreage duty to ensure the bringing of the leaf into bond (Q 128) unless a watch is kept over every field or arrangements are made for knowing the amount of tobacco raised in every field, why should the farmer bring the whole tobacco raised in his field to the warehouse for obtaining a receipt on the production of which he is to obtain a refund of the acreage duty that he has paid? How could the warehouse authorities or in fact any other person know whether all the tobacco has or has not been brought in? The employment of the necessary staff for the detection of frauds will mean a heavy expenditure to the State In fact unless it is desired to tax the tobacco that is used for the manufacture of cigarettes and cigars, etc, alone, any scheme of taxation falling short of a Government monopoly or the levying of an acreage duty will *either fail or will* be so very harassing to the public that the tax would be the most unpopular

and troublesome among all. Smuggling, and the use of unauthorised tobacco, will be carried on, on an unprecedented scale and the Government will be helpless

To tax the tobacco used for cigars and cigarettes alone will be to reduce the consumption of tobacco in these forms. People will begin to have a greater resort to *hukka*. The income from this source will not be very high and it will prove detrimental to the growth of the industry. According to what has been proposed above, all that will be needed to keep the industry in its present condition will be to increase the duty on imports correspondingly. Question No. 136 does not arise.

Tobacco is the poor man's luxury and, in many cases, a conventional necessity. Being not a necessary of life its taxation is not objectionable, but it will be highly undesirable to tax it so as to prohibit its free use by the poor or place many restrictions in their way to raise it. Accordingly Government monopoly is undesirable, and it will be preferable to permit the free cultivation of tobacco to all who will raise it on an area taxable at Rs 20 or more. To impose or collect a tax of, say Rs. 2 will be troublesome, wasteful and expensive Interference with curing is undesirable, because the present process is very simple and inexpensive The cultivator should not be allowed to grow any tobacco free of [illegible] ting to exceed the [illegible] watch it Again, [illegible] hich another man *demands that both* [illegible]

(b) *Inheritance Tax.*

Qs. 137 to 145.—Duties on inheritance should be levied which should vary with the degree of relationship of those who inherit the property to the testator and the size of the estate left The tax should be administered by the Central Government and the rates should be the same throughout India. Small estates worth about Rs 5,000 or less should be exempt. In the case of the joint family the tax should be levied on the share of the deceased, but the rates applied should be lower than otherwise.

(c) *Taxation of Agricultural incomes.*

Q. 96 and the following—According to the income-tax law agricultural incomes are exempt from tax At the same time well nigh every agricultural income is subject to land revenue It will be futile to discuss as to whether land revenue is a rent or a tax. Whatever it is, it is a burden in one form [illegible] mpt- [illegible] its [illegible] same [illegible] ,000, exempt from paying income-tax, has to pay land revenue merely because his source of income is land It is sometimes justified by saying that while land is a permanent source of income, trade and business are not. If crops fail, income from land fails, but land (the source of income) generally speaking remains, but when a person suffers from a heavy loss in trade, he often finds himself not only without an income but also without its source—the income and the capital are both lost. Whatever the strength of this argument, it must be admitted that small agricultural incomes deserve to be relieved of the burden. On the other hand, proper t[illegible] place at all, and the higher incomes [illegible] instance, A owns 500 acres of land [illegible] 000, who receives rent in his turn an[illegible], C., D., and E. If A pays the [illegible] C, D. and E escape taxation altogether. The income of C, D, and E may not be considerable, but B escapes merely because he is a receiver of rent (as defined by the Income Tax Act). And taking the case of good lands, say, in the Montgomery Colony, into consideration, what actually happens is that B pays the land revenue, C, D, and E work on the land and A escapes taxation altogether The position is thus then :—

(a) Some incomes (of peasant-proprietors and others) which are very small are taxed.

(*b*) Some incomes escape taxation altogether because they happen to come within the definition of agricultural income as defined in the Income Tax Act of 1922

(*c*) Bigger agricultural incomes are taxed at an effective rate much lower than similar incomes from trade, profession, etc, and even when a person has income from both agriculture and, say, house-property, they are separately taxed—the effective rate being lower in either case than when the same income were earned from, say, business and house property.

(*d*) At the best it could be said that the burden is shared by all A, B, C, D, and E, resulting in the under-assessment of some and of over-assessment of others. Perhaps the best solution would lie in the abolition of the land revenue altogether and the introduction of income-tax on all incomes But the problem is not so easily solved as it appears to be For levying proper income-tax we must have accounts, otherwise the tax is levied on incomes which are mere estimates. Since a major part of the Indian population, especially of zamindars, cultivation and landlords, is illiterate, it will be impossible for them to keep accounts in any form It will also be impossible for them to fill up the income-tax return, which in their case shall have to be made even more elaborate than the one filled up by the commercial classes. In the rural areas even among the commercial classes—who are mostly literate—a large percentage of the people do not understand how to fill the return, and consequently either they do not file a return, and if they do, in 90 per cent of cases it is wrong Hence, in a majority of agricultural cases, the assessment (till the people became literate) shall have to be based on estimated or guessed incomes only In order to fix the demand on the "previous years" income or the income of the previous three years, as the case may be, elaborate experiments in every locality shall have to be undertaken for finding out the cost of production and the net profits

"Land and Labour
rvey of Bairampur,
entation of holdings
l getting a part of
his land cultivated by others, and a tenant at will *in* and *out* of the village, the computation of the income of such a person will introduce many complexities.
ll be very difficult to be con-
which may be very high. In
ure to divide their property
will add to the difficulty and
of view Some kind of law
but the division of property
er representatives, since it is
bound up with the social customs and traditions of the country, should not be discouraged directly This evil in fact can best be remedied by social reform and the Government could and should interfere only indirectly One of the best ways for the Government to prevent further fractionisation is that in future it should *not* sell or distribute Government lands newly brought under cultivation It should give the same on long leases, and if in some cases it is desirable to show some favour, lower rates of land revenue could be imposed

In view of what has been said above, it is clear that the problem of tackling with the land revenue or its substitution by income-tax or some tax in any other form is beset with difficulties on all sides It would be the best for the Government, perhaps, not to interfere with it immediately A committee of experts should be appointed to investigate into the matter Experiments should be conducted in specified areas to see as to what will be the actual effect of introducing a tax replacing the land revenue "An old tax is a good tax and a new tax is a bad tax" is a saying which has a special force in a backward country where the masses are illiterate and most adverse to change Accordingly, it will not be out of place to say that the sense of the people, the smaller zamindars, should be taken

In the meanwhile, the principles governing the remission of land revenue and the advance of *taccavi*, which are rather very stringent at present, should be made as liberal as possible

Agricultural incomes of, say, more than Rs 2,000 per annum should be made liable to pay income tax—the land revenue already paid being allowed to be deducted out of the total demand fixed for a year.

If the proposal made above (namely of making the incomes above Rs 2,000 liable to pay income-tax) is accepted and put into force, the difficulty with regard to the permanent settlement in Bengal does not arise. The Bengal zamindar will begin to bear along with the other zamindars all over India, a fair share of the burden

The imposition of these taxes will bring in revenue far in excess of the fall due to the adoption of a scheme of income-tax, in which abatement is allowed on account of the maintenance of dependents The surplus should be utilised for relieving the provinces of the annual contributions that they have to make to the Imperial Exchequer. It is likely that the Central Government will find it possible to give something to the poorer provinces, who, on account of the increase in expenditure due to the introduction of the Reform Scheme, find it difficult to balance their budgets.

Q. 4—I agree with the criticism of agricultural statistics contained in paragraph 7 of Annexure A.

The estimates relating to the outturn of the more important crops are worthless and unsatisfactory because they are pure guess work The village *patwari* [illegible] more or less than the *normal*—a term which [illegible] is rather illusory when calculated (as is [illegible] ie average produce of a "circle" comprising [illegible] idred). Generally speaking a *patwari* is in [illegible] It would be much better if he were ordered [illegible] on certain plots of land in each one of the villages, and in place of making a guess that the produce was about so many annas more or less than the normal, he should either report the actual produce or actually *calculate on its basis the proportion of the produce to the normal* Rain gauges should be kept (if that is not already the case) in every police-station and the record of rainfall in each should be noted carefully. In absence of a rain-gauge in every village the rainfall in the police-station could be taken as a fair measure of the rainfall in the villages included in the circle. The adoption of this method will supply a fairly reliable "average" for every village—not immediately but after a few years when the figures are ready. For the first forecast of the crops, the estimates could be based on the rainfall in the area and the "normal produce" (an allowance being made for any special abnormal conditions). Later on, the actual yield could be estimated by multiplying the actual average yield of the plots under observation with the area under crops [illegible] in the patwari's work, one of [illegible] better, the observations could [illegible] ld be sufficient to keep such [illegible] eat, sugarcane, cotton, tobacc [illegible] ie village.

The patwari's work will need to be checked This can be done by the superior revenue officers, and if necessary the help of the staffs of the Agricultural Department and the Co-operative Credit Societies could be taken

Q. 31.—*Thathameda*, the capitation tax, chowkidari and professional taxes all resemble poll tax. They are unsuitable to this country. A lot of expenditure will be involved in their collection, and the more in meeting the opposition and general protests which they are bound to be followed by, if imposed.

Q 35—Justice demands that there should be a differentiation between earned incomes and incomes received from productive investments. But Indian capital is shy, and it is highly desirable, in the interest of trade and industry, to encourage investment, and hence it would be better, if, for the time being no differentiation were made

Q. 38—Exemption of incomes derived from agriculture should be removed altogether if they are made liable to income tax. But if that is not feasible [illegible] her, but big agri- [illegible] The distinction [illegible] ncome from land, [illegible] between *earned* incomes and income from investments in productive enterprises. In practice, most probably, a distinction will be automatically made, if the income from agricultural source were made exempt from income tax, but liable to be included

for deciding the rate at which the income is to be taxed (Section 16 of the Income Tax Act, 1922). Money-lenders and others having incomes from other sources (as is generally the case) will pay something more on account of the change in the rate of tax If at all, a very small percentage of persons actually farming their lands will be effected

Q. 39.—Taking the Punjab alone into consideration, most probably the income will remain the same or will increase slightly. For India, as a whole, the estimate made by Shah and Khambata appears to be rather high; the income will certainly rise but not so much.

Q. 40 [illegible]
vided it [illegible]
In Eng [illegible]
system [illegible]
customs [illegible]
in the other countries

Commerce, trade and industry are not as highly developed here as in other countries. The means of investment known to the masses are few. Consequently in spite of the fact that land when held in small areas is not highly paying, yet there is a demand for land among the thrifty and the high value of land is due to the thirst for it. If crops fail entirely in a certain year the Government remits the land revenue and gives *taccavi* loans When big firms fail on account of losses, no financial help of any type is given. The firm loses its income and often the capital too Even assuming that the two deserve to be treated alike, it would be much better if smaller agricultural incomes were made exempt from tax Otherwise there should be introduced some system of advancing cheap loans, like the *taccavi*, to traders and industrialists also. At the same time family budgets should be collected for finding out the subsistence level It should also be borne in mind that the standard of living and especially the cost of living have risen considerably since 1862, 1885 and 1903 and incomes (measured in terms of money), which were at the subsistence level then, are no longer so

Q 41—It is a tax on honesty no doubt to the extent to which many people succeed in concealing their incomes But with the development of the Income-tax Department, with the experience that the officers of the department are accumulating and with the intensive and detailed enquiries which are made into well-nigh every case, the extent of this blemish is diminishing Every year cases of fraud are detected and the defrauders punished Perfection is impossible

Q 42—What has happened in England is happening in India too Most of the [illegible] They are, however, especially in the backward [illegible] to be But every community is developing [illegible] up to a fair level of accuracy and certainty [illegible] will be kept by well-nigh everyone in a form [illegible] would be much better if everyone were left to follow and complete his own system For instance, well nigh all the assessees in the rural tracts in the Punjab kept no *rokar* (cash book) The occasional rejection of their accounts by the Income tax Department has resulted in the preparation of their accounts in the form that they kept, coupled with a cash-book suiting their own requirements and satisfying the demands of the Income-tax Department to know their net incomes It would be better if the people were allowed to develop their own systems, because they would understand them much better than any system superimposed on them.

The prescription of a form of accounts will not entirely prevent frauds There are cases where men keeping their books on the double-entry system have successfully committed frauds

Q 43—The particulars of income-tax should be kept as confidential as at present Since time immemorial Indians have inculcated a habit of keeping their assets and incomes confidential In spite of the law regarding the keeping of secrecy about the incomes and the tax levied on them, there are many people who do not show their accounts because they fear publicity. Most of the trade is based on credit If a firm suffered from loss, is not assessed to income-tax and the fact is known to the creditors, it would often stand a chance of having a run on it

If the proposal made above (namely of making the incomes above Rs 2,000 liable to pay income-tax) is accepted and put into force, the difficulty with regard to the permanent settlement in Bengal does not arise The Bengal zamindar will begin to bear along with the other zamindars all over India, a fair share of the burden

The imposition of these taxes will bring in revenue far in excess of the fall due to the adoption of a scheme of income-tax, in which abatement is allowed on account of the maintenance of dependents The surplus should be utilised for relieving the provinces of the annual contributions that they have to make to the Imperial Exchequer It is likely that the Central Government will find it possible to give something to the poorer provinces, who, on account of the increase in expenditure due to the introduction of the Reform Scheme, find it difficult to balance their budgets

Q 4—I agree with the criticism of agricultural statistics contained in paragraph 7 of Annexure A.

The estimates relating to the outturn of the more important crops are worthless and unsatisfactory because they are pure guess work The village *patwari* [illegible] more or less than the *normal*—a term which [illegible] is rather illusory when calculated (as is [illegible] the average produce of a "circle" comprising [illegible] dred) Generally speaking a *patwari* is in [illegible] It would be much better if he were ordered [illegible] on certain plots of land in each one of the villages, and in place of making a guess that the produce was about so many annas more or less than the normal, he should either report the actual produce or actually calculate on its basis the proportion of the produce to the normal Rain-gauges should be kept (if that is not already the case) in every police-station and the record of rainfall in each should be noted carefully. In absence of a rain-gauge in every village the rainfall in the police station could be taken as a fair measure of the rainfall in the villages included in the circle The adoption of this method will supply a fairly reliable "average" for every village—not immediately but after a few years when the figures are ready. For the first forecast of the crops, the estimates could be based on the rainfall in the area and the "normal produce" (an allowance being made for any special abnormal conditions) Later on, the actual yield could be estimated by multiplying the actual average yield of the plots under observation with the area under [illegible] the patwari's work, [illegible] er, the observations [illegible] be sufficient to keep [illegible] sugarcane, cotton, [illegible] village.

The patwari's work will need to be checked This can be done by the superior revenue officers, and if necessary the help of the staffs of the Agricultural Department and the Co-operative Credit Societies could be taken

Q 31.—Thathameda, the capitation tax, chowkidari and professional taxes all resemble poll tax. They are unsuitable to this country A lot of expenditure will be involved in their collection, and the more in meeting the opposition and general protests which they are bound to be followed by, if imposed.

Q. 35—Justice demands that there should be a differentiation between earned incomes and incomes received from productive investments But Indian capital is shy, and it is highly desirable, in the interest of trade and industry, to encourage investment, and hence it would be better, if, for the time being no differentiation were made

Q 39.—Exemption of incomes derived from agriculture should be removed altogether if they are made liable to income tax. But if that is not feasible [illegible]

[illegible] incomes and income from investments in productive enterprises In practice, most probably, a distinction will be automatically made, if the income from agricultural source were made exempt from income-tax, but liable to be included

Written memorandum of the Spirit Traders and Licensed Victuallers Association of the Punjab, Amritsar.

Q. 58—While admitting the correctness of the assertion made yet this Association does not agree with same Immoderation of any sort is bad and should be discouraged

Q 59—This Association is in entire disagreement with this question. Whisky or any other spirit of good quality, *i e.*, matured is vastly less harmful even when taken in excess than raw and immature spirit It should be Government's duty to encourage the consumption of a pure article by decreasing the duty on same and not by increasing it as is suggested. Such graduations would be extremely difficult in application particularly on imported goods

Q. 60—No Excise duty should be levied on yeast same being of vital necessity to the brewer and distiller in this country both of whom pay high rates of taxation to Government on their product There is no objection to a tax on yeast used for other purposes, but such consumption is understood to be very small.

Q. 61 and 62—This Association has knowledge of and can consider only the Punjab The Punjab Government have already admitted that a state bordering on prohibition already exists in this province Such a policy has brought about a state of affairs in which illicit distilling and smuggling are the rule rather than the exception Illicit liquor costs only -/4/- per bottle to make and its sale Government has admitted is equal to that of licit liquor Prohibition will mean increased taxation in other directions In other words the prohibitionists will have to pay the Excise duty that should be recovered from the distillers Honest men will have to make up the revenue evaded by the law breaker Illicit distilling is not considered an offence by the public Government can by a stroke of the pen forfeit the Excise revenue and increase taxation in other ways, but this will not decrease the consumption of country liquor which is already manufactured on a wholesale scale

Q 63 Statement 1—This Association agrees with this statement, but there is a limit to which the price can be raised The policy of the Punjab Government is said to be the highest possible revenue with the least possible consumption This Association agrees with this policy but the word "consumption" must be read to include both illicit and licit spirits, by excessive taxation consumption is increased and not decreased

Statement 2—This Association agrees with this statement and would emphasise the last few words

Statement 3—Is accepted but the question again arises to where taxation ceases to discourage the use of tax paid goods and where it increases consumption by fostering illicit sale

Statement 4.—Is agreed to with the same reservation made regarding statement 3

Statement 5—No reply.

Statement 6—Alcohol is *not* found to be at the root of every grave social evil Evidence could be brought forward to show that many criminals were teetotalers At the same time the excessive consumption of alcohol should be discouraged in every way

Q 64—Alcohol must be taxed, and if taxed properly, large revenue can result. When that tax is injudicially increased licit consumption decreases, its place being taken by the illicit liquor with the result that revenue falls.

Q 65—The duty on country spirits is too high The duty should be decreased by 50 per cent when a severe blow would be made at illicit distilling and Government would not lose revenue A uniform rate of duty should be imposed as far as possible, but conditions in India vary so considerably that a uniform rate is impossible

Q. 66—This has undoubtedly been the case Government admitted many years ago, that in the year when duty was 1/3rd the present figure, 50

per cent of the liquor consumed was probably illicit. What the proportion is to-day we would not like to say. Government themselves admit that the situation is quite out of hand Please see the enclosed extracts from Government reports (Statement A.)

Q 67—This question assumes that all imported liquors are of first class quality. This statement is incorrect. Imported liquor consists of both imitation and real articles. India also produces real whisky, etc, and also imitations The duty on such liquors should be less than the tariff rate For the purposes of Excise control it is better that restrictions on locally made foreign spirits should exist

Q. 68—No, the duty is already too high

Q 69.—See the reply to question 67.

Q 70.—Tari is not consumed in the Punjab to any great extent.

Q 73.—The system of disposal of retail liquor licenses is most unsatisfactory The duty on liquor should be levied by Government, but the present system of auctioning licenses means that the duty is fixed not by Government but by the retailers The methods by which auctions are held in the Punjab are very unsatisfactory resulting in much discontent among the retailers In this Association's opinion licenses should be given to retailers of long standing on nominal figures, and the entire duty should be fixed by Government Licenses should not be auctioned annually, but renewed to the same vendor at a figure to be determined by Government Should the vendor refuse to carry on his business at this figure, then Government should offer the license elsewhere

Q 74—Government has so decreased the retail licenses in the Punjab that their value has of course increased but not to such an extent as may be thought, at any rate as far as profit to the retailers is concerned The shops are too few and too far apart for the need of the community and a villager who can make all the liquor he requires in his backyard at a cost of not more than -/4/- a bottle is not going to walk 10 miles to enjoy the privilege of paying Government Rs 3 8 0 for a similar quality of spirit that because of its comparative purity is not going to intoxicate him as his own doped liquor will do

Q 92—Please see reply to question 73

Q 100—Local taxation is clumsy, inconvenient and costly in collection It should be reduced to the absolute minimum The loss being made up by grants from Government the money for which should be raised by a slight increase in possibly Customs duties, Land or Water taxes As far as the liquor trade goes, local taxation should be abolished, as it interferes with calculations made by Government, who should alone fix the duty payable per gallon.

Q. 153 and 154—The Punjab Government have already raised the duty too high and the country side, as far as illicit liquor goes, is to a very great extent uncontrolled. Difficulties would arise in allotting revenue to the province of consumption, and if adopted would be most unfair to many of the existing distilleries of India Many distilleries would have to close down that were originally licensed by Government to fulfil a definite purpose Their trade would go to distilleries that were not erected for such purposes, and when times of difficulty arose, such as railway strikes, floods, or other transportation difficulties, to which a country like India is prone, there would immediately be an outcry from retailers as to why Government had closed up a safe and certain avenue of supply that had stood the test of time In such circumstances a heavy loss of revenue to Government would accrue coupled by claims for compensation from licensees.

Q 166—The methods of distribution at present in force in this Province are suitable to the needs of a province and should not be changed, or the vested interests of the wholesalers jeopardised by handing over of certain tracts to distillers under monopoly.

In conclusion I beg to enclose herewith a copy of a letter addressed by this Association to the Punjab Chamber of Commerce and the Northern India Chamber of Commerce, etc, (Enclosure 1) This letter deals fully with the question of Excise in this province and shows clearly the tremendous amount of revenue that Government has lost during recent years, with the result that they have had to raise loans and in other way increase taxation in order to carry on administration.

LETTER FROM "THE SPIRIT TRADERS AND LICENSED VICTUALLERS ASSOCIATION" OF THE PUNJAB, AMRITSAR, TO THE SECRETARY, PUNJAB CHAMBER OF COMMERCE, DELHI, DATED THE 23RD FEBRUARY 1924.

I am directed by my Committee to bring to your notice the state of chaos into which the Punjab Government appear to be allowing the Excise Department of this Province to drift To this end I enclose herewith the following statements :

A. A statement of extracts from the Punjab Excise Reports regarding illicit distilling and smuggling in the Punjab for most of the years 1902-03 to 1922-23.

B. A statement showing the various duties and vend fees in force for the years 1901-02 to 1923-24 inclusive I would here mention in connection with this statement that Government levies a duty on every gallon of spirits issued from the Punjab distilleries to the retailers—this duty is known as the Still Head Duty. A second duty is levied by auctioning the retail shops every year handing them over to the highest bidder—this duty is officially known as a Vend Fee. The Still Head Duty is a fixed duty and the amount payable per gallon is known at the beginning of every official year The duty payable per gallon that is collected in the form of Vend Fees is not known exactly until the end of every official year when the actual number of gallons sold by the retailer can be divided into the lump sum paid by him for his shop For this reason the Vend Fee payable for the year 1923-24 is shown in this statement as estimated only as the exact figures are not yet available.

C. A statement showing the total duty payable per gallon for certain years together with the average annual consumption per hundred of population It also shows the number of shops in the Punjab for certain years, and the average number of square miles per shop Kangra district is omitted from this statement as the inhabitants of that district take out home brewing licenses on payment of small annual fees

D A statement based on the latest census report showing the population of the Punjab together with the number of towns and villages in the Punjab—their average population and the amount of Government spirit consumed per town and village, based on the normal consumption of spirits such as took place during the years 1918 19, 1919 20 and 1920-21

E A statement showing the total issues of spirit from the Punjab distilleries together with the duty levied per gallon and the total duty realised by Government In the same statement is shown a suggested normal issue of spirits together with a suggested adequate duty per gallon The last two columns of the statement show the total duty that would have been realised by Government had the duty not been so severely increased as it has been, and the last column shows that during the last three years, the result has been that Government has lost approximately one and a quarter crores of Rupees revenue

My Committee have carefully considered much evidence put before them from many Districts of the Punjab and they are unanimously of the opinion that the illicit distillation of liquor and smuggling of liquor from Native States are chiefly responsible for the decrease of revenue to Government

The territory of the Punjab is severely broken up in many places by the existence of Native States These States tax alcohol at about one-third the duty levied by the Punjab Government They maintain shops close to the borders of British Territory and a roaring trade is done by persons importing liquor from the Native States into British Territory

It is extremely difficult to obtain sale figures from the Excise Departments of the Indian States in the Punjab, as for reasons best known to themselves they keep such figures private From certain facts that have come to the knowledge of my Committee they have however every reason to believe that the sale of spirits in Indian States has not decreased during the last few years as has been the case with the Punjab proper.

The habits of the inhabitants of the Native States in the Punjab differ in no way from those people who inhabit the British portion of the Punjab The Native States however levy a very reasonable duty on alcohol with the result that the smuggling of liquor into their territory does not exist and illicit distilling exists to a very limited degree It is only in the British portion of the Punjab that these evils are the order of the day, with the result as shown in Statement F. Government has lost a crore and a quarter rupees revenue.

The opinion of my Committee regarding illicit distillation and smuggling is only too strongly upheld by Government's own admissions in the annual Excise Reports, and a perusal of Statement A., which consists of extracts from the annual Government Reports, will convince you that our arguments have backing.

If the remarks made by Mr Alexander Anderson in the third paragraph of the extracts from the Punjab Excise Administration Report for the year 1906 07 were true for a year during which the Punjab was very peaceful and when the total duty (Still Head Duty) and (Vend Fees) amounted only to Rs. 6 6-7 par proof gallon, how much more strongly do they apply to-day when the total duty amounts to no less than Rs. 22 per gallon and the country side given over to agitation of various kinds

Did my Committee think that the inhabitants of the Punjab were giving up drinking alcohol they would feel that they had no right to address you on this subject There is however no evidence available upon which they can base such an assumption On the contrary what evidence there is shows that the reverse is the case. There exist in the Punjab some three or four Temperance Societies whose admitted aim is the prohibition of Government liquor. These Temperance Societies have been hammering away at Government for many years past with the result as shown by Statement C. that the number of shops in the Punjab have been reduced from 1,271 in the year 1902 03 to 525, in the year 1922 23 The result of this tremendous reduction in the number of shops has had the result that in the rural districts of the Punjab there is only one liquor shop for every 543 square miles This means that people living between two liquor shops have an average of over two hundred miles to travel in order to procure a bottle of Government liquor at Rs. 4 per bottle, when they can make it in their own homes with little risk of detection for four annas a bottle

Any Excise man w[illegible] Excise Act many loopholes through wh[illegible] le to defeat the ends of Justice My [illegible] is well nigh impossible for an illicit [illegible] lls his liquor in the private apartmen[illegible] The possession of the unlicensed distilling apparatus is contrary to the law, but the distilling apparatus of the Punjabi consists of his ordinary cooking vessels. Distilling apparatus exists therefore in the possession of every villager in the Province And for the material with which to make his dope he has but to use the gur that either is produced from his fields or obtained with ease in the market. The Excise staff of the province is inadequate for its present needs, yet their number was recently cut down by Legislative Council at Lahore My Committee do not want to run down the Excise staff in any way, they are probably doing their best under trying circumstances, but the fact remains that most of the cases caught are the result of some friction between illicit distillers or enmity due to unknown causes resulting in information being given to Excise Staff of the existence of illicit distilling in a certain place I am directed to mention the above to show you how easy illicit distilling is, how little the risk of detection and how enormous the profits.

I now come to the chief object of this letter, and that is to point out to you the tremendous amount of revenue that Government is losing on Excise. The Government's policy is supposed to be a temperate one, and those trading in liquor have no quarrel with such a policy having no desire to make money out of people lying in the streets in an intoxicated state. My Association has however a strong objection to Government's apparent departure from its temperate policy by the way it is encouraging people to make liquor in their own homes As representing the trade my Committee strongly object to their trade being taken away from them in this manner, and I am to state clearly that it is with the object of getting the trade restored into its rightful channel that this letter is addressed to you

The point that I am instructed to put before you is that Government has to raise revenue somewhere and if it is going to lose a crore and a quarter of rupees by pandering to the prohibitionists and encouraging people to make their own liquor then it is by taxing other industries and businesses that Government has got to raise money and you now have the explanation as to why the Income-tax has been so greatly increased and taxes of other kinds imposed on the Community.

My Association has brought these matters very forcibly before Government, with the result that a very small reduction in the sale price of Indian Spirits will be introduced from the 1st April next. The reduction is not enough however and Government must continue for another year to lose revenue

The Punjab has now a Local Option Bill, which gives to local bodies the power to reduce further the number of Government liquor shops, a power which it is believed these local bodies will use to the utmost

Notice of a Resolution has just been given in the Legislative Assembly for the prohibition of the import, preparation and sale of all alcoholic drinks in India America with the aid of her fleet is unable to stop liquor from getting into her territory India has an extensive and entirely unprotected coast, and at any rate as far as the Punjab goes is even now riddled with illicit distilling and smuggling The utter unworkableness of such a scheme must be apparent to you

The Punjab Loan has got to be repaid in nine years time, and instead of the Excise Department paying for this loan, Government will have to ask other industries to find the interest and capital Had this tremendous loss not occurred on Excise the Punjab Loan would hardly have been necessary

As an instance of the cleverness and audacity of those who contravene the Excise Laws, I would mention that Excisable goods to the value of Rs 50,000 were robbed from the Government godowns in Amritsar a few nights ago The theft was not even discovered until the thieves themselves wrote in to the Police and asked them what they were going to do about it

You can assist in righting these matters and reducing the taxation on the industries and businesses that your Association represents by doing something to stop Government from encouraging the illicit distiller by putting on liquor a tax that it cannot bear, and at the same time reducing the Excise staff

You can do this either by causing questions to be asked in the Council or by addressing Government in other ways If this Association can be of any assistance to you in any way, you have only to write to me and everything possible will be done to help you

STATEMENT A

Extracts from the Punjab Excise Administration Reports regarding Illicit Distilling and Smuggling in the Punjab.

Year 1902-03 Total Duty Rs 6/7/6.

Page 1, para. 2 — Special enquiries are now in progress as regards the prevalence of illicit distillation

Page 1, para. 2, F C's. note. — The weak points just now are the prevalence of illicit distillation.

Reports for the years 1903 04, 1904 05, 1905-06 are not available.

Year 1906 07. Total Duty Rs 6-6-7.

P Govt's endst, Page 1, para. 3 — The Lieutenant-Governor observes, however, that one result of the experiment has been to disclose the existence of illicit distillation in these districts on a much larger scale than was originally supposed to exist, and it would seem that the bulk of the increased revenue derived from Excise in the area referred to represents what would have accrued to Government had it been possible to deal with illicit distillation on adequate lines in the past

Page 1, para. 3 — The reduction by one half of the price of spirits in the rural tracts of four districts in which illicit distillation was rampant has led there to a *great increase* of licit consumption.

Page 2, para. 6 F. C's. note. — The question of Excise Administration in the Punjab must be greatly influenced by the fact of the extraordinary prevalence of illicit distillation in the districts in which any large number of the people is in the habit of drinking spirit. A special enquiry was made in three or four of these districts a few years ago by the Revenue Assistants, and the results were very startling The late Mr Alexander Anderson, the Commissioner of Lahore, gave it as his opinion that half the liquor drunk in Lahore, Sialkote and Amritsar paid no duty, and the same or worse might probably have been said of Ferozepore, Ludhiana and Jullundur Mr. Hallifax thinks that the reduction of the price of spirits by one half in the rural tracts of Amritsar, Jullundur, Ferozepore and Ludhiana has greatly restricted illicit production This is probably true, but it is not likely that distillation for home use will entirely cease, for even now the article sold in the shops is six times as dear as that made in the pot-stills

Page 7, para 23. — "It is a pregnant fact that there was a good sugar cane crop this year and this probably has facilitated illicit distillation, causing a fall in the sales by the authorized shops The decrease must be put down to an increase in the manufacture of illicit liquor" The Commissioner agrees that this must be so. In my inspection of the Lyallpur district the high incidence of vend-fees upon the quantity of liquor sold, forced itself upon my notice, and a special enquiry is being made by my Personal Assistant into the circumstances of this district. *There can be little doubt that illicit distillation both for private consumption* and for sale is very prevalent there

Page 6, para. 23. — In Sialkot a case was detected in which two constables were found to be in collusion with a vender of illicit liquor In Jhang and Gujranwala and Jhelum, as well as in the Sirsa Tehsil and Bhadlada tract of the Hissar district, it is admitted that illicit distillation is rife In my opinion its full extent is no where properly appreciated. The amount of liquor which is illicitly distilled and drunk renders it impossible for Government to give effect to the principle that the maximum of revenue should be raised from the minimum consumption

Page 10, para. 29. — In a Gujranwala Village which was notorious for illicit distillation, ...

Year 1907 08. Total Duty Rs 6-10 10

Page 8, para. 14. — In Lahore the number of shops was reduced from 95 to 70 and in Gujranwala from 66 to 50

Year 1908-09. Total Duty Rs. 7-9 9.

. . and lastly the increase in illicit distillation of which the present report gives evidence.

P Govt's endst. Page 1, para 6.

They prove conclusively that among the Jats of the Central Punjab defiance of the Excise Law is widespread The detected cases though exceedingly numerous furnish an imperfect indication of the extent to which the production of illicit spirits is prevalent It is in the same tract that there has been such an increase in serious crime, ...

P. Govt's. endst. Page 2, para. 12.

Customers being thus unable to get satisfactory liquor at a reasonable price are driven to make their own liquor by the process of illicit distillation which in this province is so very easy to carry out and is fairly safe from detection.

Page 10, para. 27

Under the new rules in the ordinary auctioned shops 1/6 gallon of 60 degree spirit sells at from Re 1/- to Rs 1/4 and of 80 degree spirit at from Rs 1 4 to Rs. 1/8 If a man is inclined to drink his liquor licit he will not grumble at getting his rupee's worth at 60 degrees instead of 75 degrees of proof or at paying a few annas more for an increase in strength But the abandonment of the system will not affect at all the man who has made up his mind that with licit 75 degrees liquor at Re 1/- per reputed quart it is better to undertake the simple process of making his own liquor and risk the small chance he runs of punishment

Page 12, para. 31.

And many complaints against shops are merely pretexts for getting rid of them with a view to increasing the consumption of illicit liquor In spite of complaints shops must be maintained as they are, and local option in rural tracts is impossible till the people change their drinking customs and their attitude towards illicit distillation.

Page 13, para. 35

. statistics of detected cases give no real idea of the extent of illicit distillation The Deputy Commissioner of Gurdaspur is of opinion that in the neighbourhood of Batala 'every Jat sikh family has an illicit still' Two Lahore villages were recently raided, 11 cases were sent up for trial from 1 village and 3 from the other In Amritsar last January before the Lohri festival the Darogha submitted a list of 20 suspected villages Raids were organized and carried out on the 9th January, 1909, and 14 cases of illicit distillation were detected The Deputy Commissioner of Hoshiarpore thinks illicit stills exist in many villages In Lyallpur an Excise Officer on special duty collected information which pointed to the existence of the illicit distillation in at least 109 villages of the district Illicit distillation has now been introduced into Shahpur by Sikh colonists

Page 19, para. 56

In villages where good relations *inter se* exist among the inhabitants, the detection of a case of illicit distillation is almost an impossibility

Page 19, para. 57.

Year 1909-10 Total Duty Rs 6-13-0

Though both Executive and Police Officers have been alert to detect the various offences which the Excise Acts tend to create, it is feared that smuggling and illicit distillation continue

P Govt's endst. Page 1, para 8.

The abolition of the fixed fee system in the four central districts will call for increased vigilance in the suppression of illicit distillation The difficulties are very great and it is necessary to convince men of local influence that it pays to be on our side in this matter I trust no attempt will be made in the near future to further push up the price of liquor

F C's note. Page 1, para 2.

The number of persons arrested for illicit distillation was only 119 of whom 87 were convicted These figures are lower than any in the last three years But it is doubtful whether there has been any real decrease in this offence

Page 10, para. 47

Year 1910 11 Total Duty Rs 7 11 9

Illicit distillation, the illicit importation of cocaine and the smuggling of opium still continue

P Govt's endst. Page 2, para 4

It is generally believed that illicit distillation shows no signs of decreasing

Page 15, para. 42

An enhancement in duty is contemplated by Government, notwithstanding the fact that a rise in prices must always be a temptation to illicit distillation. If the duty is enhanced, we must look to further efforts on the part of the Excise staff and the Police to combat illicit traffic.

Page 19, para. 51.

Year 1911-12 Total Duty Rs 8-5-10.

P. Govt's endst. Page 1, para 1. A number of Inspectors and Sub-Inspectors have been specially trained in distillery work, and the Excise Staff as a whole appears to be working well, though, as observed below, it has not yet succeeded in checking illicit distillation.

P. Govt's endst Page 1, para 2 Moreover, with one exception, all the districts where drunkenness is said to be most prevalent show a decrease in the consumption of liquor. On the other hand the continued prevalence of illicit distillation and smuggling from Native States suggest a doubt which forbid any positive conclusion.

P Govt's endst. Page 1, para 3 With a view to checking the consumption of Country spirit the Lieutenant-Governor asked the Financial Commissioner last year to consider whether the still head duty could not be raised without stimulating illicit distillation to an undesirable extent It is disappointing to find that this evil still continues unchecked in the central districts of the Punjab, notwithstanding the reorganization of the preventive establishment

P. Govt's endst. Page 1, para 3. Whether an immediate increase in the duty is considered feasible or not, His Honour thinks that the time has come for an energetic and organised campaign against illicit distillation in those districts in which the evil is most widely prevalent

Page 7, para 20 Unfortunately, as the Commissioners of Jullundur and Lahore divisions point out, it is too soon to congratulate the province on any decrease in the drinking habit There is, it is feared, only too much reason to suppose that large quantities of liquor are smuggled in from Native States to Ferozepore, especially from the Nabha State, and that the illicit distillation continues unabated in districts such as Gurdaspur and Amritsar where cane is easily procurable.

Page 14, para. 41. .there is unfortunately only too much reason to believe that illicit distillation continues unchecked in the districts of the Central Punjab As the Deputy Commissioner of Gurdaspur remarks the people look upon illicit distillation as a legitimate business and cannot see why Government interferes with them in converting their sugarcane into liquor for their own use.

Page 14, para 41 In Amritsar it is reported that "illicit distillation continues on a very large scale in spite of every effort to check it It would be no exaggeration to say that there is a still working in almost every Jat Sikh village" Lambardars generally are said to connive at illicit stills There is mention in one report of the murder of an informer Another informer's son was stabbed. The property of another was destroyed by arson In view of the failure up to the present to suppress this evil the Deputy Commissioners of the districts in which it is most prevalent are averse to any further enhancement of the duty on licit liquor The Financial Commissioner agrees that the time has not yet come for such enhancement.

Year 1912-13 Total Duty Rs 8 13 4

P. Govt's endst. Page 1, para 1. The fees for the vend of country spirit have now risen to 44 per cent of the total revenue, and this high figure constitutes a strong reason for raising the duty. But no move can be made in this direction until the administration is in a stronger position to cope with illicit distillation

Page 11, para 30. It is satisfactory to note a considerable increase in the number of arrests and convictions for illicit distillation, especially in Ferozepore, Sialkot, Montgomery and Lyallpur. Efforts to deal with this offence in Lahore were not less successful than last year, but there has been a falling off in Amritsar.

Page 11, para. 31. The usual apathy on the part of the public and even of zaildars and lambardars was observed Vigorous action was taken in Ferozepore and Lyallpur against Lambardars who were themselves involved in or failed to give assistance in the detection of illicit distillation. But the good work of Police Excise officials and the assistance received from the public and local notables is too often rendered nugatory by the extraordinary leniency of the courts both original and appellate.

Page 12, para 32. The Deputy Commissioners of Ferozepore, Lyallpur, Hoshiarpur, Gurdaspur and Amritsar do not attempt to minimize the extent to which illicit distillation is rife

. . . . In ... Page 12, para.
er was bu
district a
Jat villag

A striking feature of illicit distillation as described in the district reports for this year is the number of cases in which the illicit liquor was offered for sale Smuggling of liquor from neighbouring Native States is a common offence in Ferozepore and Ludhiana, most of the spirit being brought from the Nabha territory, where, it is suspected, not only licensees but private individuals are making large illicit profits.

Year 1913-14 Total Duty Rs. 9 2-1.

The Deputy Commissioner of Amritsar is of opinion that there is not a liquor shop which the neighbours would not like to have removed from their vicinity, and in this opinion, so far as it concerns the Amritsar villages, the Commissioner agrees. Mr. Maynard's own experience, after a tour in the Amritsar district confirms this impression. It is a mistake, however, to suppose that the objection to the shop necessarily connotes an objection to the drink. Page 7, para. 19.

. . In some cases the objection to a shop in this district of illicit distillation may not be altogether unconnected with the fact that a licensee is a permanent check to such practices This fact the Deputy Commissioner seems to recognise by his practice of locating shops in villages where illicit distillation is suspected.

If we are to cope with illicit distillation on the scale on which it exists in Amritsar district we must be prepared to give rewards on a lavish scale. We have the whole country side against us and we cannot expect a man to incur the odium of his neighbours for nothing Page 11, para. 30

As far as the cane growing districts of the Central Punjab are concerned illicit distillation must, it is feared, be considered as very common The Deputy Commissioner of Amritsar says that it is still very rife. Page 11, para 31

. In Gurdaspur and Hoshiarpur it is said to exist in almost every Jat village In Sialkot it is reported as rife in certain villages and the Deputy Commissioner of Lyallpur thinks that more illicit than licit liquor is consumed

---

Year 1914-15 Total Duty Rs 9-15-3.

In paragraphs 32 34 of the report the Financial Commissioner discusses the progress during the cold weather of the campaign against the illicit distillation and smuggling of liquor conducted by Mr Kemball, Superintendent of Police, who was placed on special duty for the purpose This campaign was a distinct success both as regards its tangible results in the capture of illicit stills and the detection of illicit possession, and also on account of the information and experience acquired during the operations If there are any temperance agitators or others who still regard illicit distillation, in Sir Michael Fenton's words, as an official bogey, the detection of no less than 99 illicit stills in the course of a campaign, the active part of which only lasted 3 months and was confined to five districts, should convince even those sceptics that the evil is a serious one. It is even more significant that two thirds of the 182 raids undertaken by the special establishment were on villages not hitherto on the Excise Departments black list of suspected villages The Lieutenant Governor fully agrees with the Financial Commissioner that these special preventive measures are necessary, and it has been arranged that they shall be continued during the ensuing cold weather P Govt.'s note, Page 2, para. 5.

The smuggling of country liquor from Indian States and especially from Nabha, presents almost as serious a problem as that of illicit distillation

An important conclusion, which is justified by the facts, brought to light in the report of the officer who conducted this campaign against illicit distillation is that we have in the past considerably underestimated the volume of illicit consumption in the Province. Page 10, para. 32

this offence is even more wide spread than was supposed Page 11, para. 34

Year 1915-16. Total Duty Rs. 11-0-6.

Page 8, para 31. There can be little doubt that we have at present only touched the fringe of the illicit distillation that goes on. To deal completely with a class of offence so easy of committal and so little condemned by public opinion is naturally no easy matter.

Year 1916-17. Total Duty Rs. 10-5-9.

Page 7, para 10. The existence of illicit distillation sometimes makes it difficult to close or move shops against which there is popular complaint.

Year 1917-18 Total Duty Rs 10-3-6.

P. Govt.'s note, Page 2, para. 3. The report shows the increasing influence of local bodies on Excise policy and the aid derived from their co-operation. It also illustrates the difficulties that would arise from local option in places (and they are not few in the central districts) where local opinion favours illicit distillation and cheap liquor supplies.

Year 1918 19 Total Duty Rs 10-14-4.

P. Govt.'s note, Page 1, para. 2 The Lieutenant-Governor agrees with the Financial Commissioner that in a Province with an area of nearly 400,000 acres under sugar cane the total prohibition of liquor would only mean replacement of licit by illicit drinking, and that the policy already pursued is the best, namely the combination of the maximum *of taxation with the minimum of consumption, subject only to the consideration* that the price of country spirit must not be raised to such a figure as to encourage illicit distillation and importation

---

Year 1919 20 Total Duty Rs. 11-6 9

Page 3, para. 4. The number of persons convicted for illicit distillation rose . . . . .

Page 23, para. 3 23i. The accidental arrest of two men on the Rohtak Railway Station led to the detection of illicit distillation on a very large scale These two men when arrested were found to be in possession of 13 bottles of illicitly distilled liquor The men stated that they could point out the house from where the liquor was brought This led to the arrest of 9 other men with nearly 10 maunds of lahan and 8½ seers of illicit liquor.

Page 25, para. 29i. In Amritsar two persons were arrested working a complete still in the heart of the city.

Page 25, para 39 (i), (i) Two working stills and five complete stills (not in working order) and large quantities of lahan and illicit spirit were seized in Gurdaspur. Illicit distillation is still rife

---

Year 1920 21 Total Duty Rs 14-14 3

Page 3, para 4. Offences connected with liquor furnished as usual the largest number of criminals, 256 men were arrested for illicit distillation and 148 for illicit possession of country spirit.

Page 29, para. 31. Illicit distillation in the Punjab is an art which has behind it the support of tradition and is neither contemned nor reprobated by public opinion It is easy, it is lucrative and it has the lure of adventure The Punjabi has not spent his millions on litigation in vain. He has learnt enough about the law to know that it affords loopholes of escape for the illicit distiller, who can defy it by distilling it in open fields and taking to his heels on the first sign of

intrusion. It is, in fact, a matter for some surprise that Excise officials should still be able here and there to catch actual cases of working stills such as those briefly described in paragraph 32 of this report. The Deputy Commissioner, Karnal, after dealing with the question of constant reduction of the number of country liquor shops, remarks: "The consequence of this reduction has been the springing up of illicit stills in many villages, an offence that was previously practically unknown to the district (6 working stills being found in the year under report)". Such arrests, however, will soon be a thing of the past both through the unwillingness of the masses to help and the wariness of the offenders. The Deputy Commissioner of Hissar remarks —

"Illicit distillation owing to the reduction of country spirit shops and to the very high retail prices in the district is on the increase."

The Commissioner, Ambala (Diwan Tek Chand), has commented on this in the following words —

"The situation is rather serious and deserves careful watching Country liquor is selling at Hissar at Rs 6 a bottle which is a very high price."

Other districts are equally emphatic about the increased danger of illicit distillation if the sources of licit supply are unduly curtailed It is a practical question and not one of sentiment Even in the year under report 256 persons were convicted of illicit distillation, 19 of illicit sales of liquor and 148 of illicit possession of country liquor, but these figures by no means represent all that was attempted, they only indicate a portion of what was detected

What is wanted is, Mr. Fagan thinks, a discerning and at the same time a firm treatment of the liquor problem or problems with full recognition of the possibility that some remedies may be worse than the disease That a public opinion which, it is held, desires a drastic restriction of consumption should at the same time look with no disapproval on illicit distilling is a fundamental inconsistency which the extreme temperance reformer must face

---

Year 1921-22 Total Duty Rs 17-13-6

The cry that Government is "making money out of drink" is not peculiar to the Punjab or to India But it is regrettable that the anti-liquor movement which has been so prominent in the Punjab, during the past year, has been political rather than social in character Its objects have been not to check consumption of liquor generally, on social and industrial grounds, but to curtail as far as possible the Government Excise revenue, by a boycott of the licit liquor from which that revenue is very largely derived The temperance campaign was therefore conducted not by means of lectures demonstrating the evils of drink, but by demonstrations against and attacks upon those who took any part in the trade in licit liquor (P Govt's note. Page 1, para 2.)

The large decreases in receipts throughout the Province under almost every head of Excise are due to the following causes — (Page 2, para. 3.)

(i) Decreased consumption, (ii) an increased amount of illicit distillation and smuggling

There is clear evidence that the decrease is only in consumption of licit spirit and that smuggling from Indian States and illicit distillation on a large scale have been resorted to by the people to satisfy their cravings for alcoholic stimulant with a cheaper and more potent liquor (Page 9, para. 19.)

Year 1922-23 Total Duty Rs 21-11-9

The amount of licit liquor consumed in the year 1922-23 is now little more than one third of the amount consumed in the year 1919 20 (P. Govt's note Page 1, para. 1.)

This great reduction in the consumption in the licit alcohol would be a subject for pure congratulation were it not for the fact that there is reason to suspect that part of the defect is made up by an increase in illicit distillation and a consequent increase in the amount of illicit liquor consumed (P Govt's note. Page 1, para. 1.)

The reports of all the districts in the central and eastern parts of the Province bear testimony to the increase in illicit distillation and this testimony is supported by the fact that there has been a great increase in the number of convictions (Page 4, para 6.)

STATEMENT C.

Statement showing increase of duty, decrease of licit consumption and decrease in number of shops for the years stated.

1	2	3	4	5	6	7	8	9	10	11
Year.	Total duty.	Annual consumption in Gallons and decimals per hundred of population.	Number of shops	Number of square miles per shop showing districts of greatest variance (omitting Kangra District)		Average number of square miles per shop for all areas (omitting Kangra District Rural) based on Government figures.		Average number of square miles per shop Government figures including Kangra District.		Government corrected figures.
				Urban.	Rural	Urban.	Rural.	Urban.	Rural	
	Rs A. P.									
1902-03	6 7 6	...	1,271	......	...	.	...	.	...	...
1918-19	10 11 0	2 33	675	Multan Rohtak 2 to 9 6	Simla, D. G Khan, 13 25 to 901.	5 5	321 4	5 5	1028	..
1919-20	11 7 0	2 78	666	Multan Jhelum 2 to 9 62.	Simla, D G Khan, 13·25 to 901.	5 6	330 32	5·6	1061	...
1920-21	14 14 3	2 67	605	Multan Jhelum 2 to 9 62	Simla, Shahpur, 13 25 to 2367.	5 6	421 73	5 6	1205	...
1921-22	17 13 6	1·15	567	Multan Karnal 23 to 19.	Simla, Mianwali 13 25 to 2689	5 2 (?)	526 29	5 2 (?)	1356	232 7
1922-23	21 11 9	0 90	525	Multan Karnal 25 to 19	Simla, Mianwali, 39 75 to 2689.	5 6	543 51	5 6	Nil	244·1

It has not been found possible to find out why the figures in the last two columns differ so greatly from each other, and from those worked out by the *Association in column 8.*

Even if the Government corrected figures are accepted as correct, people living between shops have still over 15 miles to travel in order to buy a bottle of Government liquor.

STATEMENT D.

The population of the British Punjab consists of 19,974,956 persons There are 33,560 towns and villages in the Punjab It follows therefore that the 33,560 towns and villages have an average population of 595 2 persons

Admitting that 600,000 proof gallons of spirit is a reasonable figure one can arrive at the daily average consumption per town and village by the following sum —

6,00,000 × 130 and ÷ 100 equals 7,80,000 gallons at the usual issue strength of 30 under proof

7,80,000 × 6 equals 4,680 000 bottles consumed per year.

Divide this number by 365 and you get the daily consumption of 12,821 9 bottles

Divide this number by the number of towns and villages in the Punjab and you get the extraordinary low figure of ·382 or approximately ⅓ bottle (4 pegs) per day divided among 595 2 persons.

The same figures worked out a different way show that the average consumption per head per year is less than three pegs.

The only Punjab Native State that we can compare the above figures with is Patiala, the largest of all

We have no guaranteed figures to go upon, but in a recent letter from the Patiala State to a Distillery in British India the Excise Commissioner stated "I shall be obliged if you will please let me know the rate and terms for the regular supply of Country Spirit by a monthly instalment of about 8,000 to 9,000 gallons L P"

This gives us an annual consumption of 102,000 P. Galls per year. The population of Patiala consists of 1,407,659 souls. The towns and villages number 3,524 and the average population per town and village works out to 399 8 persons

The annual consumption is 1,02,000 L P Galls Multiply this by 130 and divide by 100 and again multiply by 6, and the result shows that the State consumed 795,600 bottles of spirit per year or 2,124·9 bottles per day. Divide 2,124 9 by the number of towns and villages (3,524) in the State and you get the result 6029 or approximately ⅔rds bottles per day among 399 8 persons

The average annual consumption per head (1,407,659 into 1,32,600 into 72 pegs per gallon) works out to 6.86 or nearly seven pegs per head per year.

Compare these figures with the above suggested Punjab figures and you will see that the Patiala State figures show that the consumption there per head per year is more than double the Punjab figures

Compare them with the actual Punjab figures (about one third our suggested figures) and you will find that the consumption per head per annum in Patiala is no less than seven times greater than the Punjab consumption

Patiala people are not a different race with different habits

Conclusion.

Our suggested consumption figures for the Punjab (600,000 L P. Galls.) is a very conservative one A vast amount of smuggling from Patiala into the Punjab must go on, and, as Government admits, illicit distillation in the Punjab is rife.

The above figures are based on the Census Report for 1911, the 1921 Report not yet being available The 1921 Report should show still worse results as the population will have increased

STATEMENT E.

Year.	Totals of plain and spiced Spirits issued from Punjab Distilleries to the Punjab N. W. F. P. and Delhi.	Total duty levied per L. P. Gallon	Total duty realised.	Suggested normal issue.	Suggested Adequate Duty per L. P. Gall.	Duty realisable.	Loss to Government
		Rs. A. P.	Rs.		Rs.	Rs.	
1902-03		6 7 6		...		...	...
1918-19	575,158,6	10 14 0	...		...	...	..
1919-20	636,382,8	11 7 0	...	..	...	...	...
1920-21	602,362,9	14 14 3	83,43,703	600,000	15	90,00,000	Very little difference.
1921-22	313,546	17 13 6	58,68,144	600,000	15	90,00,000	Rs. 31,31,856
1922-23	206,182,2	21 11 9	46,52,651	*600,000	15	90,00,000	,, 43,47,349
1923-24	180,000 (based on 9 months figures 31,926,57).	22 1 0	39,60,000	600,000	15	90,00,000	,, 50,40,000
				Loss of revenue in three years			Rs. 1,25,19,205

Written memorandum of Rao Sahib Chiman Lal Khurana, Vakil. Bannu.

Q. 50.—I do not agree to the assessing of agricultural income to income tax at all, whatever may be the amount estimated therefrom The vast population of India is essentially agricultural and rural, the population of towns and cities is about 10 per cent of the *total population of India, agriculture proper supports* about 71 per cent. of the people (besides the cultivators the villages contain many artisans, menials, etc, who also get their support from field produce) in a country where agriculture is the predominant occupation and field produce naturally furnishes the mainstay of taxation; at present according to statistics it forms about 30 per cent of the revenue The recurring famines and the economic distress show the inequity of increasing the burden of rent for the cultivators and the various widespread long chain of rent receivers and rent payers including village menials, etc There are host of middlemen between the big rent receivers and the actual cultivators who squeeze the cultivators out of the position of land-holders No doubt this point to some extent justifies the necessity of our seeking the taxable surplus in the long array of intermediary dependents on the land rather than from the small holders whose economic position has deteriorated during these recent years But this may take the form of Death duties upon estates, probates, etc But to tax directly the income derived from land would be burdening very much and unnecessarily that section of the population which at the present day may be called the real population of India (from which the army is enlisted and labour is derived)

Some have recommended a way towards the more equitable adjustment of taxing the land produce in the following manner —

(*a*) Assessing the income derived from land by persons who do not directly work on the soil

(*b*) Fixing the revenue on agricultural profits of a representative economic holding

(*c*) Exempting the uneconomic holding from any land tax

But the size of average economic holding would so vary in different provinces and the general problem would be so complicated to be worked out that the labour spent thereon and the discontent which will result therefrom would not be worth the amount which might be ultimately realized and added to the general financial capital of the country

Q 51.—Yes, *I do accept the proposition described in this question* Salt yields and can yield sufficient tax without really affecting in an appreciable manner the pockets of the masses The actual amount which individuals have to pay per head on account of salt tax if the tax be remitted will be so small a gain to the persons concerned as would not make any appreciable difference to the gains secured by the persons concerned No doubt salt is actual necessity of life, and if the Government can derive the amount required for its administration *from other sources, one would prefer to leave the actual necessities untaxed* but considering the following points I think it is but fair to tax this commodity —

(*a*) Those who use salt do derive benefit *from the stability and existence* of a civilized Government equally with their other brethren who are taxed for luxuries also

(*b*) Salt tax is in existence since ancient times

(*c*) In other countries also this commodity is taxed

(*d*) Last but not the least, as already stated, the amount gained by the individuals by the remission of this tax is so insignificant that it cannot be considered a hardship or a real substantial pinching of the pockets of the poor (as the extremist agitators name it)

Q 52.—I quite agree, there is no other tax which will be *less oppressive on* poor general classes than the salt tax Moreover the tax on salt can be collected with much more facility and leaves no margin of any person getting exempted in any way. Other grounds have been given in detail in answer to question 51

Q 86—Rates of tax in India are no doubt lower than those imposed in most of the other countries but considering the general poor standard of income and living of Indians the resentment of the people to further taxation is quite reasonable and natural. They do certainly need Government protection and help for devising means to raise their general economic condition and capacity of production but these are points which may not be touched in answering this question and at this stage

Q 87—I would at present suggest addition of the following taxes out of Annexure K—Advertisements, Auction Sales, Betting, Club Subscriptions, Entertainments, Motor Cars, Luxuries and Tourists

The above items are generally the result of Western civilization and following the mode of living obtained in those countries and as such they who enjoy *the advantages should pay the taxes on the system in vogue in those civilized* countries

Q 88—No doubt Stamp Duties are means of collecting taxes upon transactions (voluntary and involuntary). On account of recent amendments of the Stamp Act the matter has been sufficiently threshed out in the Legislative Assembly and Local Councils At present they need no revision one way or the other as the effects of recent amendments must be seen for some time in order to form an opinion

Q 89—Bantham's views about interdicting taxes on Judicial proceedings are quite in accord with those of the ancient Hindu and Muhammadan Law Givers and Commentators' views and op
and the mode of Government is now a
of Government On one side, while I
Self-Government, stable, strong and re
own feet and able to compete with the Western countries in every way; then they must on the other side pay for the maintenance of that system of the Government of those countries (judicial administration being only a part of that). My opinion therefore is that litigation, which in other words means Judicial Administration should be taxed in such a way as to afford free justice to the real needy, and become a tax on those who indulge in litigation for the sake of litigation only In other words I would not content myself to collections of Stamps, etc, only to such an extent as to provide the Government with funds to meet the cost of Judiciary, etc, but I would recommend that it should be done in such a way as to be a real substantial tax which might help to relieve less litigiously inclined and calm loving people some relaxation in the burden of taxes Under the existing rules the real needy and deserving classes of litigants are already exempt and sufficiently safeguarded from Stamp duty by the exercise of discretion vested in the Local Governments in exempting from court-fees, petitions and applications in certain proceedings

Q 90—To a great extent I do agree with Hobson's statement that Stamp duties on deeds of disposal or transfer of property are in restraint of trade but the amount levied on stamps on such transfers and disposal of properties is such as it has not a real check on transfers or disposal of property and which may come to the limit of restraint of trade. Taxes so realized are spent for the protection of the people and for the upkeep of the Government The people enjoying trade or ownership of property cannot do so unless they have got a stable and a strong Government to support, safeguard and enforce their rights to property. Therefore for this very reason alone they must contribute without grudge or murmur towards the funds.

Written memorandum of Khan Sahib PIR ASADULLAH SHAH, Extra Assistant Commissioner and Excise Officer, Bannu.

Q 23—I agree with the statement entirely.

Q. 61—I do not anticipate the introduction of the policy of total prohibition.

Q 62—See answer to question No 61.

Q 63—All the statements referred to in the question are acceptable except as far as they concern the use of tobacco, which is not a luxury in this country

Q 64—As a measure of taxation, the policy followed in this province is quite feasible

Q 65.—Most probably the lower rates of duty are fixed in areas notorious for illicit distillation In introducing a uniform rate of duty it will be necessary to take effective precautions against illicit distillation

Q 66—As illicit distillation is not known in this district I am not in a position to answer this question

Q 67—From the excise point of view it does not seem desirable that locally made imitations of imported liquors should be taxed at tariff rates and given the same freedom from restrictions on transport as is given to foreign liquors

Q 68—I am in favour of imposition of supplementary duties on foreign liquors by Local Governments

Q 69—Credit for the amount of duty realized on foreign liquors (imported or locally manufactured) should be given to the importing province

Q 70—As *tari* is not grown in this district, this question cannot be answered

Q 71—I am not in favour of variety of rates of duty on *charas* and *bhang* as it offers an inducement for smuggling where duty is fixed at higher rates I would therefore suggest a uniform rate of duty

Q 72—From the point of view of taxation, as at present in force, the system of wholesale supply of intoxicating liquors and hemp drugs is not satisfactory.

Q 73—From the point of view of taxation, the system of disposal of licenses for the retail vend is satisfactory

Q 74—It is not necessary that everywhere the reduction in the number of licenses for the retail vend of liquors should result in increase of value of remaining licenses Such a reduction may result in increase of value in certain cases but where there is only a nominal or no competition at all such increases cannot be expected

Q 75—As far as external smuggling is concerned, such a step does not appear to be desirable

Q 76—The system of employing salaried persons for the retail sale and distribution of opium is not in force in this district But from my own view of the system I can say that its introduction will have no good effect on the revenue

Q 77—Further steps to check smuggling are necessary and these steps should be taken by the Government of India

Q 86—Rates of tax in India are no doubt lower than those imposed in most of the other countries but considering the general poor standard of income and living of Indians the resentment of the people to further taxation is quite reasonable and natural. They do certainly need Government protection and help for devising means to raise their general economic condition and capacity of production but these are points which may not be touched in answering this question and at this stage

Q 87—I would at present suggest addition of the following taxes out of Annexure K—Advertisements, Auction Sales, Betting, Club Subscriptions, Entertainments, Motor Cars, Luxuries and Tourists.

The above items are generally the result of Western civilization and following the mode of living obtained in those countries and as such they who enjoy the advantages should pay the taxes on the system in vogue in those civilized countries

Q. 88—No doubt Stamp Duties are means of collecting taxes upon transactions (voluntary and involuntary). On account of recent amendments of the Stamp Act the matter has been sufficiently threshed out in the Legislative Assembly and Local Councils At present they need no revision one way or the other as the effects of recent amendments must be seen for some time in order to form an opinion

Q 89—Bantham's views about interdicting taxes on Judicial proceedings are quite in accord with those of the ancient Hindu and Muhammadan Law Givers and Commentators' views and opinions. But the times have since changed and the mode of Government is now a days quite dissimilar to the ancient mode of Government On one side, while Indians accept Western civilized form of Self-Government, stable, strong and representative, capable of standing on its own feet and able to compete with the Western countries in every way; then they must on the other side pay for the maintenance of that system of the Government of those countries (judicial administration being only a part of that) My opinion therefore is that litigation, which in other words means Judicial Administration should be taxed in such a way as to afford free justice to the real needy, and become a tax on those who indulge in litigation for the sake of litigation only In other words I would not content myself to collections of Stamps, etc, only to such an extent as to provide the Government with funds to meet the cost of Judiciary, etc, but I would recommend that it should be done in such a way as to be a real substantial tax which might help to relieve less litigiously inclined and calm loving people some relaxation in the burden of taxes Under the existing rules the real needy and deserving classes of litigants are already exempt and sufficiently safeguarded from Stamp duty by the exercise of discretion vested in the Local Governments in exempting from court-fees, petitions and applications in certain proceedings.

Q 90—To a great extent I do agree with Hobson's statement that Stamp duties on deeds of disposal or transfer of property are in restraint of trade but the amount levied on stamps on such transfers and disposal of properties is such as it has not a real check on transfers or disposal of property and which may come to the limit of restraint of trade. Taxes so realized are spent for the protection of the people and for the upkeep of the Government The people enjoying trade or ownership of property cannot do so unless they have got a stable and a strong Government to support, safeguard and enforce their rights to property Therefore for this very reason alone they must contribute without grudge or murmur towards the funds.

II.—Land Revenue assessment.

3 Most of my general ideas on the land revenue assessments in this province are contained in Chapters XI, XIII, XVI and XVII of my Nagpur Settlement Report, and with four and a half years experience as Revenue Secretary and over two years as *Settlement Commissioner*, during which times I have had to deal, both in field and in office, with many settlements at different stages, I find little to modify in my opinions of eight years ago, except that increased prices have aggravated the evils of the present practice which I mention in the Settlement Report.

4 I define a tax as a payment imposed by the State to meet the expenses of Government and a rent as a payment, either annual or capitalised, for the use of a commodity, which may or may not go to the State If the commodity is land, the less rent the State takes, the more goes, in one form or another, into the pockets of middlemen to the detriment of the actual cultivator In this province what we call land revenue is in practice an inelastic tax, because in each district it remains unchanged for 20 or 30 years irrespective of the increase in economic rent which occurs owing to rise in prices and the development of the country, but in nature it is an ever-decreasing fraction of the economic rent of land The lowness of the land revenues cannot be gainsaid by anybody who is acquainted with the facts The attached extract from my last Season and Crop Report shows that it absorbs a much smaller proportion of the value of the produce than most advocates of moderation would urge Sounder proofs of excessive moderation are —

(1) The existence of high premia, locally called *nazarana*

(2) The high sale prices obtained for land which can be freely transferred

(3) The existence of high sub rents

5 I attach a copy of a report* on the resettlement of the Malkapur and Khamgaon taluks prepared by the Settlement Officer of the Buldana district in Berar Appendix G (Statement of sales and leases) speaks for itself Similar figures could be given for almost every part of the province, the multiples of assessment varying according to the state of development of the tract, but everywhere, except in a few backward portions, very high To argue that the "prosperity of the cultivators is affected by the land tax" (question No. 97), when the most energetic of them are paying rents, say, ten times as heavy to private individuals, is to talk politics and not economics Speaking generally, in the Central Provinces the most indebted class of land lords are those who hold land free or on perpetual quit rents or on a fraction of the full land revenue Berar is a raiyatwari tract, where in theory the cultivators should deal directly with the State, but the statistics of the Settlement Officer, Buldana, show that the main cultivating castes pay far more to private persons for the annual use of land than they pay annually to the State Further, the low pitch of the land revenue compels the energetic cultivator to spend far too much of his resources on purchasing land and leaves him without enough to put into the land when purchased The money for purchasing land is frequently borrowed at high rates of interest, often from the landlord and the interest is therefore disguised rent A further evil of the present rates of assessment is that there can be no efficient system of suspension or remission in bad years In Berar lessees of the holders of survey numbers have no rights In the Central Provinces sub-tenants find a place in the Tenancy Act and in law a suspension or remission is given to sub-tenants under section 65 of the Central Provinces Tenancy Act when the land revenue is suspended or remitted, but this provision is to a large extent illusory, as sub-rents are often paid in cash at the beginning of the season and the sub-tenant cannot get his money back if there is a subsequent suspension or remission I regard, therefore, the pitch of the revenue in this province is very detrimental to its economic development, in that it hands over an increasing share of the rental value of land to the middleman, who as a rule does nothing for the advance of the country, though the provincial resources are much too small for administration on twentieth century lines

6. I would deprecate any new taxes in this province while increasing sums, which will anyhow be extracted from the cultivator, continue to go to the middleman For this reason I regard the recommendation in paragraph 11 of the Joint Select Committee on the Government of India Bill as very ill advised

* Not printed.

in particular, it should not have been given "without expressing any judgment on the question whether the land revenue is a rent or tax" for that question is the crux of the whole matter. The persistent demand that settlement procedure and practice should be reduced to statute is the cry of the middleman and not of the cultivator, though I admit the latter often utters it in hope that in time he too will live on somebody else's labour In precise terms, as the opinions received by the Central Provinces Government on the bill framed for the Central Provinces in accordance with the recommendation and on the proposals for the resettlement of Berar, which is now starting, show, it is a call for the limitation of enhancements to the vanishing point and the prolonging of the term of settlement to infinity, so that the middleman may live in idleness at the expense of the cultivator, no matter how much the rent of land may increase

7. The author of the quotation in question No. 98 has presumably neither read Adam Smith nor studied the Central Provinces system. Adam Smith, in the very chapter of the "Wealth of Nations" in which he lays down his canons of taxation,—describes temporary settlements as "much more proper" than permanent ones, and he urges a land tax based on and varying with rents and not on the ability to pay of any idler that may hold the land. The complaint of "tyranny and extortion" may have had some basis of truth when our land revenue system was in its infancy, but it has none now, though petty exactions by subordinates have not yet disappeared. The time of payment is carefully fixed for each district in accordance with its agricultural circumstances so as to allow the cultivator time to market his crops before any payment is demanded from him, and the instalments in which the payment should be made are left, at the time of the settlement, to his own decision. *I have myself in the Nagpur district asked the assembled cultivators of over two thousand villages in what instalments they would prefer to pay,* and in doing so I merely followed the usual practice. Moreover, the persons who are slowest in paying are rich absentees and middlemen who have let their land to real cultivators for many times the assessment. To urge that 20 per cent or any other percentage of the land revenue is spent on collection alone is to confess ignorance of the system of administration

8 I am opposed to a tax on agricultural income, whether with or without an exemption limit In a province where very few cultivators maintain accounts and where the few accounts which are kept would not stand examination by an accountant, because they hopelessly confuse capital and income, a tax on agricultural incomes would have to be based on revenue payments, as was done in early Income-tax Acts. It would therefore be a great deal simpler and much more within the comprehension of the payers to increase the revenue. Moreover, an income tax could not in practice be imposed without an exemption limit, and such a limit would, I consider be wrong in theory as it would not help the cultivator. My whole argument above is that as economic rent exists, it cannot be ignored and any exemption would not benefit the man who actually cultivates the land.

9 I do not think that an exemption limit either of agricultural income-tax or land revenue would, if it were introduced, have any real effect on the fractionization of holdings, which are governed almost entirely by the personal law of the holders, but it would have an effect on paper, as joint family holdings would be shown as separate so that each might fall below the limit, as they are sometimes now shown to increase the number of voters in a family. In the Central Provinces there is a fee on mutations, but only the mutations of whole or parts of villages are entered in the mutation register. It has no effect on fractionization and any increased mutation fees would not, I think, influence fractionization. The only way to prevent it is to abolish the Hindu and Muhammadan law of property, which of course is not a practical proposition.

10 Sir Ganga Ram's proposal (question No 120) is impossible :—

(1) because it is in theory unfair;

(2) because his tax would lead to endless confusion and corruption;

(3) because it would straight away multiply the revenue several-fold

One-sixth of the value of cotton reaching the railway stations of the province in season 1923-24 amounted to about five crores, though cotton is important in only 7 of the 22 districts The present land revenue for the 22 districts is

just over two crores. The year was one, be it admitted, of a good cotton crop and record prices.

11. I advocate that all land in towns should be assessed according to its non-agricultural value and that this assessment should be regarded as an integral part of the work of the settlement department. The tradition that land revenue should be assessed only on agricultural land dies very hard In the last eight years much has been done in the Central Provinces to regularize the settlement of non-agricultural land The method of dealing with such land as is the property of the Government is explained in R B C IV 1. But to my mind the present practice does not go far enough, in that people who have held land from before the days when the Government first took up the question of assessing town lands are exempt from payment I have always held that everybody, old residents and new-comers alike, should be treated uniformly Our system is further incomplete, as it does not deal adequately with town land in which the Government conferred *malguzari* rights at the time of the first proprietary settlement in the sixties, and the question of town land in Berar is just now beginning to be taken up Income from privately owned town land in the Central Provinces is taken into consideration as *siwai* or miscellaneous receipts, but such receipts are mainly from new land given out or on transfers and the main body of holders of land are not assessed In Berar there has long been a system of levying the premia on land converted to non agricultural purposes, but the system is now under examination to put it on more rational lines, and the old holders of property on Government land in the towns have never been assessed I urge that the assessment of town land should be in the hands of the Government because experience has shown that municipalities invariably make a mess of the administration of such land, but I most strongly advocate the continuance of the Central Provinces system under which four fifths of the net receipts from land values in the town is handed over to the municipal committees for use in town administration If the Committee so desire, I shall send copies of the settlement reports on Khandwa and on the four towns of the Wardha district recently settled

III.—Registration fees

12 The statistics of the Registration Department in the Central Provinces and Berar in 1923 show that the expenditure was 35 per cent of the income but this figure is entirely fallacious, as there are many items in the expense of running the department which do not and some which cannot appear in the figures Thus, we have many ex-officio sub registrars who are Tahsildars and Naib-Tahsildars. All District Registrars are part time men, whose main duty is regular district work Registration offices are mostly held in district offices or tahsils in which the department sits rent free Registration pensions also do not come into account A proper classification of expenditure would increase it to certainly over half the gross receipts While therefore all the excess of receipts over expenditure, as shown in the accounts, cannot be called a tax, a large part of it is, and I think that it is quite right that there should be a tax on registration, as the mere act of registration is not all the service which the Government renders to the persons who register documents Thus, to quote only the most obvious example, good registration is based on good system of land records, most of which costs nothing to the people I regard the raising of registration fees as a feasible proposition, especially as it can be done without taking anything more out of the pockets of the people as a whole The department is notoriously corrupt, and I have done my best in the last two years to combat the corruption Clean work and higher fees would cost the people less than at present The raising of the fees was suggested a year or two ago but was not accepted by the Local Government because the budget could be balanced without it

---

Mr. Dyer gave oral evidence as follows :—

The President Q—You are the Settlement Commissioner and Inspector General of Registration of this province?

A.—Yes, Sir. I am also Director of Land Records Since the 1st January 1923 I am also Secretary to the Local Government in the Settlement and Land Record Departments This is the result of one of the recommendations of the

Retrenchment Committee. When I was the Revenue Secretary to the Local Government for about 4½ years, I was also Settlement Secretary and owing to a variety of circumstances, I spent a good deal of my time on tour. I therefore saw things on the spot as well as dealing with office files

The Maharajadhiraja Bahadur of Burdwan Q—You say on page 181 of your written evidence that the pitch of the revenue in this province is very detrimental to its economic development, in that it hands over an increasing share of the rental value of land to the middleman I take it that your idea is that the middleman should not exist?

A—Certainly, but he must exist in so far as he is one of the results of the mistaken policy of past generations

Q—But how are you going to rectify it in future?

A—We cannot do that The only possible way is to keep the middleman down to the minimum: that we are bound to do. The relatively small areas which have been given out in the Central Provinces since the proprietary settlement of the sixties been given on raiyatwari tenure, but they are only in the backward tracts of the province

Q—Do you depreciate any new taxes in this province?

A.—Yes

Q—But then supposing it was thought that some other tax should be introduced to supplement your resources, would you then deprecate it?

A.—I would not supplement resources until we have tapped the land revenue properly

Q—In tapping land revenue, I have read your note on *nazarana* and come to the conclusion that of course you are opposed to *nazarana* Do you think that even if you were to abolish it by legislation, it would be more or less a paper transaction?

A.—You cannot abolish *nazarana* effectively by any legislation. If you mean that we should pass a law that *nazarana* is illegal, it would be futile to do so. It cannot be done Even if it were attempted, it would have no effect. There is a vacuum, and that vacuum must be filled somehow.

Q—Supposing on *nazarana* you were to make your land revenue higher than it is now, that is to say, at the settlement, I take it, you very often settle your standard rent not from the lower rent that prevails in the area, but you arrive at a standard by taking the highest rent in the locality, and then you fix your standard rent at the new settlement and so on

A—That is not so in this province I must always be clear whether I am speaking of the Central Provinces or Berar, because the Berar system is practically that of Bombay, and the Central Provinces system is a cross between that of the United Provinces and of Bombay As the result of a long-established custom, our Central Provinces tenants are really raiyats They pay rent as fixed by the Settlement Officer and now-a-days the rent remains the same until the settlement is revised The malguzars, who were made landlords in the sixties, are now really in effect people who collect revenue and get a very large percentage for doing so They get also *nazarana* and the profits of their home-farm and also their miscellaneous income from forests, etc. It is a curious combination You cannot call the malguzar either a rent collector or a zamindar

Dr. Hyder. Q—What do you mean by *nazarana*? Is it a portion of the capitalised value?

A—It is a portion of the economic rent capitalised.

Q—Why is it that the middleman, the malguzar, and the tenant are parting their ways I could understand if they want to sublet, but why should they reduce the real rent?

A—Because if they give out land on the full economic rent, that high figure is t [illegible] nd revenue, but if they keep the rents at t [illegible] er (some people lower the amount fixed by [illegible] the land does not come to the assets,—to [illegible] that the Settlement Officer works on in fixing the land revenue

Dr. Paranjpye Q —Do you think it would be possible to introduce a system in which *nazarana* would be entirely disregarded and land revenue fixed upon the net receipts?

A.—What do you mean by net receipts?

Q —Net receipts of the half profits of the cultivation?

A —I think there will be a revolution in the Central Provinces if you introduce that system. I don't think it is feasible, as giving a sum many times the present revenue We are hundreds of miles away from the theoretical fixing of revenue at half net assets

Q —You know actually what the figures of the *nazarana* are?

A.—We do not know Our figures are only a guess The *nazarana* figures are sometimes not embodied in the transfer documents at all and frequently the document is not exact, to put it mildly The incoming tenant pays Rs 2,000 or so, and it is either put down as Rs 200 or the document is complicated by the mention of a previous transaction, and frequently there is no document at all. The ascertainment of *nazarana* is a very difficult part of the duty of the settlement staff I don't pretend to say that the figures ascertained are complete. They are decidedly incomplete

Q —You spoke of the home-farm of malguzars Would it be possible to take the rents for these home farm lands as the basis for seeing what the *nazarana* is? I mean the difference?

A.—No it is not possible, because you may get a village where the home-farm is sublet at a very high rent and where there is not even one penny of *nazarana*

Q —How do you then fix your enhancements?

A —It is a cardinal policy of the land revenue department that if you are to enhance the land revenue, you must do so gradually It should be so fixed as not to upset domestic budgets too much We have long had a system of deferred enhancement The land revenue of a village is, say, doubled and the immediate net loss to the malguzar is very considerable, that is to say, the increase in the land revenue is a great deal more than the increase in rents, because for example the village is very largely home farm Therefore we allow one to three stages of enhancement periods of five years each Thus if there are three stages, the malguzar pays the full revised revenue for the first time only in the 16th year of settlement

The Maharajadhiraja Bahadur of Burdwan Q —Is there much sub-infeudation here?

A.—Compared with other provinces, I would say that there is not much But we should tackle the question of sub-infeudation now, because it is at a stage when we can tackle it If we allow the evil to continue for a couple of generations more, we may not be able to check it at all We have nothing like the sub-infeudation that exists in some parts of Bengal

Q —Has the excess in *nazarana* anything to do with the demand for land?

A —Yes, *though the pressure of population on our land is not so heavy as* in many parts of India

Q —Will it amount to economic rent?

A.—The interest on the *nazarana plus* the rent fixed by the settlement officer is sometimes higher than the economic rent

Q —Interest alone, not the value?

A —Yes Frequently, as I have said, the low pitch of the land revenue or statutory rent compels the energetic cultivator to spend far too much of his resources on purchasing land and leaves him without enough to put into the land when purchased The money for purchasing land is frequently borrowed at a high rate of interest, from 12 to 25 per cent It is often borrowed from the landlord and the interest is therefore a disguised rent, when the landlord has got the tenant in his pocket If we have a very good cotton season he would at once pay One of our difficulties, I may mention in this connection is that our cotton prices do not depend on the local market, but on the fluctuating price in the world market. If the cultivator gets a high price and a good crop, he pays the *nazarana* in the Central Provinces in cash. So also in Berar he will pay his high purchase price. If the cultivator has not enough money,

he will pay down partly in cash and partly by bond. Sometimes he gives the bond to the landlord himself and sometimes he will borrow the money outside. I am collecting statistics on this point.

Sir Percy Thompson. Q.—Is it not a fact that under the *nazarana* system the man who indulges in it escapes the progressive enhancement of land revenue which you say is the general policy of the Central Provinces Government?

A.—In a way, he does. I have not been able to see any way out of that difficulty except gradually to enhance the revenue so as not to leave any margin for *nazarana*

Q.—You enhance to a greater degree rents which are not subject to *nazarana*? They will show greater tendency to advance than the rents which are paid subject to *nazarana*?

A.—No, we enhance all rents on the same principles

Q.—Would you enhance low rent because it is too low as compared with other rents? Is it not unfair to the tenants?

A.—I have urged for many years that the only way to cure this defect is to raise the rents gradually so as to reduce the possibility of *nazarana*

Q.—Do you think the tenant thinks of it?

A.—No, he does not think of it, because rents are as a rule so low that he does not give them serious consideration. Once I asked a man what his rent was. He replied "How should I know? I only bought my land ten months ago and I have not paid any rent yet"

The President. Q.—Is rent regarded sometimes as a registration fee?

A.—That is the expression used by a Deputy Commissioner of Nagpur in 1907 He used that expression first

Q.—In your definition of rent in the Berar Bill, would it not include *nazarana*?

A.—Yes, that definition should include *nazarana* But our trouble is it is impossible to treat *nazarana* as a form of rent In my written evidence I define a tax as a payment imposed by the State to meet the expenses of government and a rent as a payment, either annual or capitalised, for the use of a commodity, which may or may not go to the State My trouble is that I cannot think out any other satisfactory way of assessing *nazarana* except in the end by making it impossible by raising the annual payments

Dr Hyder. Q.—Cannot you estimate the *nazarana* and take account of its annual value in ascertaining the assets?

A.—If I understand your point rightly, it is this There has been a certain levy of *nazarana* which should be taken into consideration in fixing the land revenue, but meanwhile the money that the malguzar received as *nazarana* has probably been spent in some way or other, frequently, as you know, squandered If you carry on the process far enough, you get a land-revenue which is theoretically fair, but which is more than the annual receipts from the village and the malguzar cannot pay it.

Dr Paranjpye. Q.—I dare say that *nazarana* is repeated frequently, is it not?

A.—*It is in the nature of a windfall. You get some villages where the* malguzar can take no *nazarana* at all, because the land is fully occupied Circumstances vary It may happen that none of the tenants die heirless during the settlement, and in some villages there may be many deaths without heirs during the currency of the settlement, e g, during the influenza epidemic. Occupation may be expanding There are some villages, for example, in the district of Nagpur where the *nazarana* has equalled 80 times the land revenue in the course of 20 years, because in this district, with the cotton boom of the last generation, land has been in keen demand

Sir Percy Thompson. Q.—In the case you mentioned before, i.e., payment of land revenue, if the malguzar does not pay, what happens?

A.—Not many such cases have arisen We get some cases where the malguzars do not pay for various reasons, but the evil is not serious

Q.—Would anything serious happen if you turn him out?

A.—Nothing serious would happen Of course he does not deserve any sympathy, but unfortunately the Indian Government is too sympathetic We

are far too lenient in the collection of land revenue I found in Berar, when I was a Deputy Commissioner there three [illegible] ue. The Tahsildars were issuing notices fc[illegible] ard to the reason for the delay and were [illegible] ear Code which says if the man is late in paying the land-revenue, the Tahsildar can, with the permission of the Sub-Divisional Officer, add a penalty up to 25 per cent I told my Tahsildars to select one or two rich men and surcharge them the 25 per cent penalty, with the result that all the arrears flowed in like water. When one Tahsildar tackled the very richest man in the taluk, the other people paid without any further delay The promptness of the payment of land revenue in this province depends on fairness and strictness of collection Very often it is found that the richest man and the absentee landlord is the defaulter and not the poor man The rich money lender is very often the defaulter Thus there is not much connection between the promptness of the payment and the ability to pay The settlement papers show this The assistant settlement officers analyse the reasons for the existence of arrears and in the Nagpur Settlement I found that the amount due from poor men was very small A common type of figures is that Rs 500 is owed by rich tenants, Rs 250 by men who sublet and perhaps Rs 50 by one or two poor widows Some malguzars also deliberately encourage a policy of arrears so as to get the tenants into their power I remember once talking about rental arrears to a retired Extra Assistant Commissioner I had a pile of assessment papers before me and told him that "I will tell you by simply looking at the name of the malguzar whether or not rental arrears exist in this village" I was wrong only in one village, and even in that village the malguzar had just bought the village and had not yet had time enough to introduce the system of piling up arrears

The Maharajadhiraja Bahadur of Burdwan Q—Do you use surcharge freely?

A—I would, but it is not used freely here.

Q—It is just like money-lenders asking for extra interest, is it not?

A—It is not quite like that It is a penalty for not paying on the fixed date By statute we are allowed to do that only in Berar and not in the Central Provinces We had a discussion at the Commissioners' Conference at Pachmarhi last June about levying a penalty, and a recommendation was made, but in the end it was rejected by the Government Even in Berar the rules under the law limit the penalty to 25 per cent I made my Tahsildars never impose less than 25 per cent when they used the power

Q—In para 8 of your answer where you discuss tax on agricultural incomes it appears you are opposed to it and one of the grounds seems to be that you are in favour of such a system which would exempt the class that do pay land revenue now?

A—No That is not exactly my objection

Q—Supposing you have a raiyat paying 50 rupees and your exemption limit went to people paying a hundred rupees, it would exempt quite a number of cultivators who now pay something Apart from that question, is your opposition because you think that this unequal treatment is right or do you think that in this country, where in theory the State is the real proprietor of land, that he tries to pay some kind of land revenue to the Government and he feels that he has got connection with the Government?

A—It is not that My first objection to an agricultural income-tax in substitution for land revenue is that I hold that every man who holds land must pay something for it Consider the anomalies which would come to exist between the Central Provinces and Berar The cultivators in the C P and Berar are full brothers in origin though owing to differences in the revenue policy of the British Government they look more like second cousins If you introduce an agricultural income tax with an exemption limit, the small raiyat of Berar would be exempted, whereas his full brother in the Central Provinces would continue to pay rent to the malguzar

Q—When you say that the raiyat of Berar would be exempted, would it mean that he would be exempted from paying any rent because there is no superior landlord there?

A—The small man holding his own land (we call him the *Kabzidar* there) would be exempted from paying anything, whereas his full brother in the Central Provinces will still have to pay his rent

he will pay down partly in cash and partly by bond. Sometimes he gives the bond to the landlord himself and sometimes he will borrow the money outside. I am collecting statistics on this point.

Sir Percy Thompson. Q—Is it not a fact that under the *nazarana* system the man who indulges in it escapes the progressive enhancement of land revenue which you say is the general policy of the Central Provinces Government?

A—In a way, he does. I have not been able to see any way out of that difficulty except gradually to enhance the revenue so as not to leave any margin for *nazarana*.

Q—You enhance to a greater degree rents which are not subject to *nazarana*! They will show greater tendency to advance than the rents which are paid subject to *nazarana*?

A—No, we enhance all rents on the same principles.

Q—Would you enhance low rent because it is too low as compared with other rents? Is it not unfair to the tenants?

A.—I have urged for many years that the only way to cure this defect is to raise the rents gradually so as to reduce the possibility of *nazarana*.

Q—Do you think the tenant thinks of it?

A—No, he does not think of it, because rents are as a rule so low that he does not give them serious consideration. Once I asked a man what his rent was He replied "How should I know? I only bought my land ten months ago and I have not paid any rent yet"

The President. Q—Is rent regarded sometimes as a registration fee?

A—That is the expression used by a Deputy Commissioner of Nagpur in 1907 He used that expression first

Q—In your definition of rent in the Berar Bill, would it not include *nazarana*?

A—Yes, that definition should include *nazarana* But our trouble is it is impossible to treat *nazarana* as a form of rent. In my written evidence I define a tax as a payment imposed by the State to meet the expenses of government and a rent as a payment, either annual or capitalised, for the use of a commodity, which may or may not go to the State My trouble is that I cannot think out any other satisfactory way of assessing *nazarana* except in the end by making it impossible by raising the annual payments

Dr Hyder Q—Cannot you estimate the *nazarana* and take account of its annual value in ascertaining the assets?

A—If I understand your point rightly, it is this There has been a certain levy of *nazarana* which should be taken into consideration in fixing the land revenue, but meanwhile the money that the malguzar received as *nazarana* has probably been spent in some way or other, frequently, as you know squandered If you carry on the process far enough, you get a land revenue which is theoretically fair, but which is more than the annual receipts from the village and the malguzar cannot pay it

Dr Paranjpye Q—I dare say that *nazarana* is repeated frequently, is it not?

A—It is in the nature of a windfall You get some villages where the malguzar can take no *nazarana* at all, because the land is fully occupied Circumstances vary It may happen that none of the tenants die heirless during the settlement, and in some villages there may be many deaths without heirs during the currency of the settlement, e g, during the influenza epidemic Occupation may be expanding There are some villages, for example, in the district of Nagpur where the *nazarana* has equalled 80 times the land revenue in the course of 20 years, because in this district, with the cotton boom of the last generation, land has been in keen demand.

Sir Percy Thompson Q—In the case you mentioned before, i e, payment of land revenue, if the malguzar does not pay, what happens?

A—Not many such cases have arisen We get some cases where the malguzars do not pay for various reasons, but the evil is not serious

Q—Would anything serious happen if you turn him out?

A—Nothing serious would happen Of course he does not deserve any sympathy, but unfortunately the Indian Government is too sympathetic. We

are far too lenient in the collection of land revenue I found in Berar, when I was a Deputy Commissioner there three years ago, certain arrears of land revenue. The Tahsildars were issuing notices for payment absolutely without any regard to the reason for the delay and were forgetting to use section 117 of the Berar Code which says if the man is late in paying the land revenue, the Tahsildar can, with the permission of the Sub-Divisional Officer, add a penalty up to 25 per cent. I told my Tahsildars to select one or two rich men and surcharge them the 25 per cent penalty, with the result that all the arrears flowed in like water. When one Tahsildar tackled the very richest man in the taluk, the other people paid without any further delay The promptness of the payment of land revenue in this province depends on fairness and strictness of collection Very often it is found that the richest man and the absentee landlord is the defaulter and not the poor man The rich money-lender is very often the defaulter Thus there is not much connection between the promptness of the payment and the ability to pay The settlement papers show this The assistant settlement officers analyse the reasons for the existence of arrears and in the Nagpur Settlement I found that the amount due from poor men was very small A common type of figures is that Rs 500 is owed by rich tenants, Rs 250 by men who sublet and perhaps Rs 50 by one or two poor widows Some malguzars also deliberately encourage a policy of arrears so as to get the tenants into their power I remember once talking about rental arrears to a retired Extra Assistant Commissioner I had a pile of assessment papers before me and told him that "I will tell you by simply looking at the name of the malguzar whether or not rental arrears exist in this village" I was wrong only in one village, and even in that village the malguzar had just bought the village and had not yet had time enough to introduce the system of piling up arrears

The Maharajadhiraja Bahadur of Burdwan Q—Do you use surcharge freely?

A—I would, but it is not used freely here

Q—It is just like money lenders asking for extra interest, is it not?

A—It is not quite like that It is a penalty for not paying on the fixed date By statute we are allowed to do that only in Berar and not in the Central Provinces We had a discussion at the Commissioners' Conference at Pachmarhi last June about levying a penalty, and a recommendation was made, but in the end it was rejected by the Government Even in Berar the rules under the law limit the penalty to 25 per cent I made my Tahsildars never impose less than 25 per cent when they used the power

Q—In para 8 of your answer where you discuss tax on agricultural incomes it appears you are opposed to it and one of the grounds seems to be that you are in favour of such a system which would exempt the class that do pay land revenue now?

A—No That is not exactly my objection

Q—Supposing you have a raiyat paying 50 rupees and your exemption limit went to people paying a hundred rupees, it would exempt quite a number of cultivators who now pay something Apart from that question, is your opposition because you think that this inequal treatment is right or do you think that in this country, where in theory the State is the real proprietor of land, that he tries to pay some kind of land revenue to the Government and he feels that he has got connection with the Government?

A—It is not that My first objection to an agricultural income tax in substitution for land revenue is that I hold that every man who holds land must pay something for it Consider the anomalies which would come to exist between the Central Provinces and Berar The cultivators in the C P and Berar are full brothers in origin though owing to differences in the revenue policy of the British Government they look more like second cousins If you introduce an agricultural income-tax with an exemption limit, the small raiyat of Berar would be exempted, whereas his full brother in the Central Provinces would continue to pay rent to the malguzar

Q—When you say that the raiyat of Berar would be exempted, would it mean that he would be exempted from paying any rent because there is no superior landlord there?

A—The small man holding his own land (we call him the *Kabzidar* there) would be exempted from paying anything, whereas his full brother in the Central Provinces will still have to pay his rent

Q.—Apart from all political considerations, do you think, financially, that your Government would suffer by such a substitution?

A.—It is rather an indefinite question

Q—Supposing the present system were abolished and you had a well-graded income-tax on agricultural incomes?

A—But why ask me to suppose an impossibility?

Q—Even impossibilities have sometimes to be put

Dr. Paranjpye. Q—You want to get at the rent receivers. But according to the present rules, you cannot get at them.

A.—I want to have the rules altered I am talking as a result of 21 years' observation, not as a Secretary to the Government Every one knows that my views are opposed to those of the Local Government. I think the Central Provinces Settlement Bill is a bad one

The President. Q—Is that Bill confidential?

A.—No It has been circulated for eliciting opinion.

Sir Percy Thompson Q—Have you any objection in theory to an income-tax being superimposed on land revenue? You said that land revenue is a payment for the use of the land and that it is a payment for an asset which the landholder has and which a clerk, etc, does not possess Now, should not a general tax like income-tax, quite apart from circumstances in India, apply to the whole of a man's income, commercial or agricultural?

A—I realize the necessity for an income tax as an item in the financial system, but I would like to see it used as it was first introduced in England as a sort of balancing tax

Q—It was intended up till 1877 to meet emergencies

A—I object to an agricultural income-tax in this province, because it is more a tax on industry than elsewhere.

Q—Why do you say that?

A.—Suppose you have two brothers, they divide their paternal holding, and each gets, say, 20 or 25 acres In a good year of high prices, like 1923 24, one of these brothers if he is a good cultivator, would come above the income-tax exemption limit and the other, who is a waster, will be below it.

Q—Would not that apply to any trade or profession? The diligent or energetic man will make more money

A—I prefer income-tax as an emergency tax. In the case of divided family holdings, the difference that often exists between one and the other is simply due to the personality of the two brothers. Take again garden cultivation Oranges are a most important form of garden cultivation here, which is extremely laborious and extremely profitable If income-tax is levied as you suggest, you would be reverting to the old evil of assessing the garden cultivators relatively very heavily Some of the old heavy rates were reduced by Sir Reginald Craddock 30 years ago and again reduced by me 10 years ago

Q—You would only tax on total income.

The President Q—Do you take account of character in levying income-tax?

A.—I do not regard income tax as a good form of taxation, out here especially. The point is that in any form of taxation you should get away as far as possible from taxing industry, but in this province by taxing agricultural incomes you are going directly for taxing industry.

Dr Paranjpye. Q—But your objection does not certainly apply to people who merely receive rents

A—My objection is that one small man who is not energetic comes below the exemption limit while his more energetic brother goes above it.

Q—But if the other man cultivates himself, would he pay it?

A—You can get the same result better or more satisfactorily by enhancing rent.

Sir Percy Thompson Q.—You would not get any progression then The larger incomes would not pay more than the smaller ones if you merely enhance the land revenue You double it for the poor as well as the rich man, so that the additional taxation is not progressive

A.—I admit that.

The President. *Q.*—With an income-tax you could tax unearned incomes at a higher rate

A.—The proper way to tax unearned income is to increase land revenue

Dr. Paranjpye. *Q.*—That would be taxing earned as well as unearned incomes

A.—Take Berar. You get a fairly energetic man who owns 40 acres in his own name, for which he pays a land revenue of Rs 80 He takes 40 acres more land (on sub-lease) and for that he pays Rs 800 He is paying an economic rent of Rs. 880 for 80 acres of land If you go along the Great Eastern road, you will find acres and acres of land belonging to wastrels which has been sub-let

Q.—It is these people you want to get at.

A.—You cannot get at them except by increasing the land revenue

Sir Percy Thompson *Q.*—Supposing I hold land and pay Rs 100 land revenue I sub let it for Rs 1,000 and pocket the difference of Rs 900 Your increasing the land revenue would merely go to the landlord and not to me

A.—If you go far enough, there will not be enough for the subletting man to live upon.

Q.—Do you mean that he would increase the rent?

A.—He would give up his land

Q.—Take this case I have no tenancy rights I pay Rs 100, you take Rs 50 by way of land revenue Supposing the land goes up in value and I let it for Rs 1,000, draw the difference of Rs 900 and live on it, and supposing you took a big proportion of the assets, *viz.*, Rs 100 instead of Rs 50, I shall still have Rs 900 to live upon

A.—No If the land revenue went up from Rs 50 to Rs 100 you raise the rent at the same time, and the more you raise the rent, the less the sub-letting man is going to get My argument is that what an energetic man pays in rent and in sub rent together are equal to an economic rent It is a mistake to say that sub rents in a district average Rs 20 an acre and therefore Rs 20 an acre is an economic rent It is higher than an economic rent, because it is being paid by people who are paying a great deal less for their own land

The Maharajadhiraja Bahadur of Burdwan *Q.*—In paragraph 10 where you discuss Sir Ganga Ram's proposal, you say that it would straightaway multiply the revenue several fold Do you say this in the sense that the interest you would get from the sale of land will be more than your present revenue?

A.—He took one-sixth of the value of produce coming into railway stations. Our cotton crops practically all go to railway stations *en route* for Bombay A very small quantity almost not worth while considering is consumed by mills in the Central Provinces The rest is rail borne traffic and averages over a million bales The value of these last year—a year of high prices and a fairly good crop—amounted to about 30 crores which one sixth is 5 crores of rupees, against something just over 2 crores which is our present land revenue for the whole of the C P and Berar I mean that the rate is absurdly high, even if the proposition was a fair one, not that I object to high payments in general

Dr Paranjpye *Q.*—Don't you think it is also unfair on the ground that it would hit only those people who export their crops?

A.—My chief objection to it is its impossibility in practice and injustice in theory

Dr Hyder *Q.*—I can't understand how you make out that land revenue is an ever decreasing fraction of economic rent If you follow the half-assets rule, how do you make that out?

A.—What do you mean by the expression 'half assets'?

Q.—The net profits of cultivation

A.—What are they?

Q.—They vary from one Settlement Commissioner to another

A.—Our whole trouble is that we made a big mistake 60 years ago of having a thirty-year settlement in a country which in those days was absolutely undeveloped and had not a single mile of metalled road Just after this settlement there

came the American Civil War, which pushed up the price of cotton. There was a tremendous development during those thirty years and railways came in. The first railway was about 1867 The line from Bombay to Calcutta, *via* Nagpur was only completed in the early nineties. When we started the second settlements, we found that we had lost so much ground that any application of theoretical standards was completely out of the question Then came the 20 years' settlement from 1900 to 1910 Very considerable development took place and there was a great increase in the area under cotton. Again we lost ground, so that while prices stepped forward three steps, we found we could only step up by half a step, because we could not increase rents and land revenue by too much in one step If a man is paying land revenue of Rs. 500 and by applying your system of half-assets it is to be increased to Rs 3,000, you cannot raise the revenue from Rs 500 to Rs 3,000 at one step.

Q—What is your system?

A.—My remedy is a series of settlements at short intervals so that we may have some chance of making up this leeway. That is quite a practical proposition, because the operations of settlement do not worry the cultivator at all All the theories that we read in books about the constant worry to the cultivator are all ancient history

Sir Percy Thompson *Q*—Does it not really come to this, that after a resettlement you ascertain the net revenue to be imposed and instead of 50 per cent say you cannot possibly enhance more than so much per cent?

A—We do not worry about the gross output or the net output We simply say that our rents are so much, that judging by the price of land, they should be several times that amount, that it is quite impossible to impose this enhancement at once and we find out what is the maximum we can impose without causing too much of an upset in the domestic budgets, and then having fixed our rents at that figure, we value the home farm at that figure, we take the miscellaneous receipts into consideration, add these together and take half of that.

The President *Q*—That is, your maximum is modified by the idiosyncracies of the Settlement Officer, and again modified by the idiosyncracies of Government

A—That again is theory

Q—I see from the Nagpur Settlement Report what would have taken place, had some of the higher authorities not intervened

A.—I started with what I considered to be the excellent principle of making bigger enhancements at one time It was followed for a time, but when some middlemen began to appeal (although as a matter of fact these appeals were, I was told, engineered by an Assistant Settlement Officer whom I had got rid of), the Local Government thought that there must be settlements which would cause no appeals Such a settlement must, of necessity, be a bad settlement

Q—Don't you have appeals against every settlement in thousands?

A—No

Dr. Paranjpye *Q*—Are there any resolutions about them in the local Council?

A.—But these are put in by people who have scarcely seen a village There are two resolutions against the Berar settlements, one by a district pleader and the other by a man who signs himself as a banker.

Q—Are not these put up by the cultivators?

A.—No. The district pleader, being a resident of the district where the settlement is going on must, of course, bring in a resolution against it

Q—Do you mean Mr Kanetkar?

A—Yes

The President *Q.*—Whatever view the Council takes, do you think it is practicable to increase the rent?

A—I think it will be opposed, but it is the only thing to do

Q—Is there any chance of its ever being carried out?

A.—That depends on the Local Government

Q—I take it that taxation is only part of the object of settlement.

A.—Yes, that is a thing I am very emphatic about. In your note on the C. P. evidence you talk of the very elaborate system of land revenue, involving the most elaborate cadastral survey in the world I doubt if that statement is quite exact.

Q.—Not as regards the survey here?

A.—I mean the world at large

Q—I think it is true as regards the Madras Revenue Survey.

A—Even supposing you had a permanent settlement straightaway, it will be necessary to maintain our present land records practically as they are

Q.—It is proposed to define a settlement as the result of the series of operations regulated by Chapter VI of the Central Provinces Land Revenue Act, 1917, whereby the rights and liabilities of proprietors and tenants in a local area are determined for a period There is no mention of taxation in the definition of settlement

A.—When a settlement staff actually works in a village, the major portion of the work is the checking of the land records, to see if they are correct, and a very important part is the recording of the village customs

Q—Supposing you had a clean sheet, would you combine the taxation aspect of the land revenue with this settlement of rights and liabilities, or would you separate them?

A—I would still combine them for the reason that the man who goes into all these questions of land records gets a knowledge of the village that no other man can get

Q.—There is another definition in the Berar Bill I see that settlement is referred to as based on a valuation of the land Do you think it would be practicable to convert your settlement to a tax on capital value?

A—Quite impossible

Q—Is not the whole of your settlement based either on annual or capital value?

A.—It is based only on annual value

Dr Hyder. Q—You would get the capital value by capitalizing the annual value

A—Why convert your annual value into capital value, and then convert it back again into annual value?

Dr Paranjpye Q—But you don't bother about value in fixing your assessments; you only increase by 33 per cent as I see in one of your reports

A—There are some very backward parts where even 33 per cent. might not be taken For example, in the wilder parts of Chanda, the standard might be below 33 per cent But in most districts, 33 per cent is very small enhancement.

The President. Q—I find from the Nagpur Settlement Report that you only look into general circumstances, such as the condition of the cultivator, the demand for land as indicated by the sales and the assets.

A—The Nagpur district is far from homogeneous There are quite backward parts, where one has to move with caution In the district as a whole the 33 per cent taken is a great deal less than theory says should be taken

Q—I am not talking for a moment about the rate you can take, that will be a separate function altogether. Instead of going through the net asset calculation which depends on so many variable circumstances, you should base your calculation simply upon the capital value

A.—How are you going to get your capital value?

Sir Percy Thompson Q—You cannot get it except through annual value

Q—What about the record of sales?

A—The record of sales is surely a record of capital value but they are not nearly complete If you want to value the whole district, you have got to get the record of sales for the whole district, but these sales only take place here and there In some villages you will not get a single sale in the course of the whole period of the settlement In other villages, owing to various circumstances, you will get a number of sales

The President Q—Does not the same thing apply to leases?

A.—You get leases in every village.

Q.—If you get leases, can't you calculate the value from them?

A.—But why a step forward for the sake of going a step back again?

Q.—Because your settlement based on annual value is rather extraordinary.

A.—What is capital value except a capitalization of the annual value?

Q.—But the annual value you take is far below the actual annual value.

A.—We know it is.

Sir Percy Thompson. Q.—You take revenue at something very considerably less than the annual value If you take the capital value, you would have to make the enormous enhancements which the Government of the Central Provinces fears so much.

A.—Yes.

The President. Q.—You don't take annual value, you take an empirical figure.

A.—Not empirical.

Q.—If you take a proportion on the capital value you would have one rate of taxation for the whole province. At present the rate varies from village to village

A.—I want the economic rent to come to the Government as land revenue, and the same quality of land in different positions should pay different rates of land revenue because the rent is different.

Q.—The annual value differs but the share on annual value would be the same

A.—Don't we do that now? The evil can be removed by reducing the period of settlement.

Q.—You will find that the districts that were settled before the war are paying half of what the districts that were settled afterwards are paying, because the settlement is revised in accordance with prices

A.—But that is impossible in our province Here we have got to disregard prices The difficulties arise because we had a 30 years' settlement when the province was very undeveloped and the value of land was just beginning to rise

Q.—Would those difficulties arise if your law simply said that you could take *a percentage on the capital value?*

A.—Are you going to have a valuation every year?

Q.—I suggest what America, New Zealand and other countries do

A.—I think the conditions there are different from those in India.

Q.—In what respects?

A.—The important thing is the size of the holdings Secondly the difficulty, especially in this part of India, of getting accounts Some of the people in the Central Provinces are so primitive that they keep their accounts in cow dung streaks on the wall It is very difficult to get proper accounts.

Sir Percy Thompson. Q.—Suppose you have the whole province mapped out into plots of land. Suppose the annual value is £5, the capital value will be £100 At present you take varying proportions of land revenue because you come up against limited enhancements Similarly if you begin to take a proportion of £100, would not the same difficulty arise because equally you come up against that enhancement?

A.—Yes

Q.—Does not that proposal admit that land revenue is a tax?

A.—I call land revenue not a tax but an ever decreasing fraction of the economic rent

Dr. Hyder. Q.—I cannot accept that statement.

A.—I am only stating exactly the facts as they exist at present. I do not say it should be, but I say it is My tr[illegible]
settlement have no knowledge of fa[illegible]
has written this book (Prof. C N. [illegible]
province Judging by what he has [illegible]
ces His statements are nonsense

The President Q.—Has your malguzar no rights over waste?

A.—He has He is the proprietor of the whole village area, except that we have also got the *malik-makbuza*,—that is, the plot-proprietor. He is a man who was given proprietary rights at the first settlement in virtue of ancient possession over the land in his own cultivation Apart from him, and in many villages he does not exist, the malguzar has proprietary rights over the whole village, and he can give out waste for cultivation and if the waste produces anything, he can appropriate it, subject always to customary rights of user

Dr. Paranjpye Q—Does he get mineral rights?

A.—No. Except in the few scattered villages given out under the Waste Land Rules, I know of only one waste land village in which so far minerals have been found under the C P Land Revenue Act and the Berar Land Revenue Code mineral rights are vested in the Government The holder of the surface has only surface rights In some parts of the province the income from the waste is very considerable

The President Q—Is this waste assessed?

A.—It is assessed under the head *Siwai*, that is, miscellaneous income We find out the income at the time of the settlement

Q—If he chose not to cultivate it, he will pay no revenue?

A.—No, if he does not get any income, he will not pay any land revenue There may be land available for cultivation but still under waste But so long as he does not make any income, he is not assessed

Q—If the man did not cultivate it purposely?

A.—We have to ascertain whether that is due to some decline in the village or due to retardation For instance, in one village I found that the occupied area had decreased by about 300 acres, when the people in all the villages round about were applying for land This man was deliberately holding back that land and I assessed it. If we find deliberate retardation, we assess the land

Q.—Otherwise lands not occupied are not charged?

A—They are not charged It is quite common in certain districts Certain lands will be out of cultivation not on account of any decline but because they are kept for some communal purpose, *e g*, as standing ground for cattle

Q—Do you survey the whole village or only the occupied land?

A—The whole village In the C P all our villages except some very backward ones, where cultivation is still unsettled, are traversed and the detailed survey filled in In the raiyatwari villages in the C P we follow the system adopted in Madras In Berar we follow the Bombay system

Q—At the end of 30 years you have got to resurvey the whole?

A—No, not the whole, because our patwaris are supposed to keep the map up-to-date year by year and their maintenance is every year improving

Q—But if you have no triangles or offsets how can you keep them up-to-date?

A—The patwari is now supplied with a map on good drawing paper Suppose in the course of his annual work he finds that a field shown as one in the map has been divided by two brothers, he alters his map to show the partition When his map has become unserviceable through age or numerous alterations, he is called in to headquarters during the monsoon and there he prepares under supervision a new up-to-date map Our theory is that the land records staff are keeping the maps absolutely up-to-date every year We do not, of course, obtain perfection, but still the maps are kept almost up-to-date

Q—Is the record of rights and tenancies strictly up-to-date?

A—What we have got is a record of rights prepared at the settlement and then corrected every year in what we call the annual papers. The record of rights is prepared under closer supervision than the annual papers At settlements the annual papers are checked by a process we call *attestation*. The revenue inspector goes through the records and checks them in consultation with the people. The Assistant Settlement Officer again examines them and they are passed by the Settlement Officer. As a rule, the task of getting the records up-to-date is very small.

Q—How long does it take?

A.—For a village of 1,000 acres it takes, with the check of the soil classification, about a week or ten days Our work is simple, as our sub-infeudation is not so great as in other parts.

Q—You say the cost of settlement is paid by the increase of land revenue?

A.—That depends upon the settlement. Take for instance the Betul settlement It would be unfair to take the whole cost of settlement against increment of the land revenue, because in that particular district the preparation of a good record of rights was a great deal more important than the enhancement of the land revenue.

Q—Record of rent, or record of rights?

A—Record of rights The record of rent does not cause much trouble. A man in that district would say nothing if his rent was raised, whereas he would be full of indignation if a *mahua* tree which he claimed were recorded in another man's name.

Q.—Can you give us an idea of the proportion of cost of collection to the land revenue?

A.—The Patwaris are paid by commission They are paid out from the general revenues at commission rates.

Dr. Paranjpye *Q*—In the malguzari villages no commission is paid

A—We have already given the malguzar about 50 *per cent.* Take the case of Berar. The patel is the village headman and is a very important man In a Berar district, if you have got a right sort of patel, the rural affairs can almost manage themselves because he is a man honoured in his own country and he does a lot of useful work He has also got certain definite duties under the Criminal Procedure Code, and you cannot say that his commission, which averages about 3 per cent on the land revenue, is the cost of collection of land revenue.

The President *Q*—The Patel in a rich irrigated village gets more.

A.—I admit that it is an anomaly in this commission system. You may have a big important village in Berar with poor soil where because the land revenue is less the patel gets less commission

Q.—Have you an association of patels?

A—No; but they are always asking for higher pay. The chief trouble in Berar is in connection with the patwari, not in connection with the patel He is as a rule a substantial cultivator in addition to his commission from the Government and the commission is not a serious consideration to him. But if he is not a cultivator, he gets a great deal less

Q—Do you charge fees for mutation?

A—Yes.

Q—Under what law?

A.—Under the rules under the Land Revenue Act and Code.

Q—Do you get a record of all tenants?

A.—Yes; in the C P. in the village *khasra* In the tahsil we have a register of proprietary rights called the Mutation register. The mutation fees are 8 annas per Rs. 50 land revenue if the change is by transfer and 4 annas if by inheritance.

Q—Have you calculated the proportion borne by land revenue to economic rent?

A—You have got some figures in the Settlement Reports. I always argue that these sub-rents are higher than the economic rent. They are paid because the man is paying less than the economic rent for his own land

Dr Paranjpye · *Q*—Then why does he take additional land?

A—Because he knows he can make some profit

Q—Then certainly it cannot be higher than the economic rent.

A.—Suppose he has 40 acres for Rs 80. Then he takes 40 acres more for Rs 800 The total rent is Rs 880 You must divide Rs 880 by 80 to get the economic rent of the 80 acres He pays the Rs 800 for his sub-lease land because he is paying very little for his own holding

Q—If there is loss on the second 40 acres, why should he take it up at all?

... has to give up to the landlord a part of his ... he can afford on account of his low statutory ...

... define economic rent?

A.—What a prudent man would be ready to give for the annual use of the land.

Q.—It has nothing to do with the margin of cultivation?

A.—I believe that in practice it is often the land on the margin of cultivation that goes into cultivation first and the richer lands go only later

Q.—We are trying to have some sort of means to compare the incidence of land revenue in the different provinces but the only one seems to be the percentage of the land revenue to the economic rent Taking the ordinarily accepted definition of that phrase, can you tell us how that can be worked in this province?

A.—Find out what good, progressive cultivators are paying as rent and sub-rent. Take these two together as the economic rent. When I was holding a meeting recently in Berar, of people who were protesting against the settlement and the Tahsildar sent round notices asking the people to represent their views, I found that the three people who sent out the unofficial whip were all money-lenders The man who cultivates the land should have the security of land and security of payment My argument against taking the figures of sub-rent as an indication of economic value is that these sub-rents are high to some extent because they are paid by people who hold land on protected low payments.

Q.—Could you give us the figures?

A.—I could give you the figures only after an examination of the villages

Q.—We are trying to get this so as to make a comparison of each province

A.—I am actually dealing with the rent-rate and assessment report of a group in the Narsinghpur district, a rich *rabi* district. One of the difficulties is that probably the figure of sub letting is concealed and the man who says that he is subletting for half batai is probably taking a large sum in cash

Q.—All round tenancy rate? What does it mean?

A.—The average rent, the rent paid to the malguzar Talking roughly if Rs 2-12 0 is economic rent, the land-revenue on it would be in this group 0-12 0 It will remain at 12 annas for the rest of the thirty years, unfortunately

Q.—In that case land revenue would be only 25 per cent, is it not?

A.—Yes This is an exceptional group for the district and the ratio is somewhat high It is a washed out group on either bank of the Nerbudda and the sub-letting figures are low compared with the rents

Q.—Do I understand from the supplementary note that you are going back on the experiment of amalgamating the registration and land records departments?

A.—It does not work There has been no real amalgamation at all except that the Director of Land Records is now the I G of Registration and in a few places where the work is light the Sub Registrar is also the Kanungo or tahsil revenue record keeper We have a Sub-Registrar spending nine-tenths of his time on kanungo's work and one tenth on registration work

Q.—You have never tried to keep the record of rights at registration offices All transactions relating to those survey numbers will go to the same portion of registration books?

A.—That is in a way the system which is in vogue only in Berar. Even there it is new and we do not want to make too many experiments so soon

Q.—Is registration absolutely necessary for the sale of land under a hundred rupees?

A.—No, it is for sales over hundred rupees that it is necessary

The Maharajadhiraja Bahadur of Burdwan *Q.*—Among the malguzars on an average can you tell me what they pay Rather who is your biggest malguzar and who is ...?

A.—A ... is anything up to, I would say, the maxim... are none here who pay 5 lakhs or 4 lakhs ... people we call zamindars and they pay a varying but usually low fraction of the full revenue as *takoli* The average malguzar has got a scattered estate For example, take the malguzars of the

Nagpur district. They may have bought villages here and there, and consequently their estate is scattered over many tahsils or even many districts. There are many men who hold villages also in Wardha and Chanda districts.

Q—Your malguzar here too although he may possess more land than an ordinary cultivating raiyat, his revenue also is liable to reassessment after thirty years?

A—Of course. At each settlement, usually every twenty years.

Dr Paranjpye. Q—You speak about lands in the towns. What would you say to handing them over to the municipalities?

A—I should oppose it straight away. I give you an example for my reasons of doing so. A case was recently brought to my notice by a Settlement Officer. Under our system the local bodies are consulted when these plots are sold. Three men applied to lease certain plots The local body, without giving any reason for their decision, recommended that two men should be given the land and the third man should not be given The reason, I found out afterwards, was that the two men were connected with the municipality and the third was not. Moreover the municipality has not the courage to tax the lands properly. In the *nazul* circular attached to my evidence we are just taking away the collection of ihsildars. In practice into a hopeless state work We give the ment gets the total e and staff, we give fth the Government takes

The President. Q—That is a disguised subsidy?

A—Yes

Dr. Paranjpye Q—Why do these lands become important, is it because the municipalities are there?

A—It is not due to the municipalities, but it is due to the large congregation of people The value of the land is due to the collection of people owing to the advantageous position The municipality provides amenities such as roads, etc, for which they get the bulk of the land revenue in the form of a disguised subsidy.

I therefore say that the whole of the town lands should be assessed throughout

The President. Q—Have you made any rough estimate of the number of people who would pay agricultural income-tax?

A—I do not think the Government has ever attempted to do this and I do ing is this Take the cotton would be very great You y according to conditions in nditions The number of re vary much from year to year

Q—Have you any idea how many malguzars would pay if their rent receipts above the exemption limit were taxed?

A—It would be very difficult to find out because the malguzars have their estates so scattered over many places In Nagpur district if we were to try, it would mean a lot of tabulation, etc. For example, in collecting figures for indebtedness, I found it very difficult, because the same man holds villages here and there and the figures tend to get confused.

Q—Apart from the criticisms you have made, it would be a material factor if we find on taking estimates of the provinces that the income is very small. In the Punjab for instance it will be I think 2,300 people who would pay it

A—I would not hazard any figure

Dr Hyder. Q—In your definition in the bill you have got the definition of lambardar, mukaddam, etc., but not of a malguzar, why?

the man who handles was reserved for the lguzar was originally only a village farmer and when proprietary rights were given the term should have been dropped.

Lt.-Colonel H. de L. POLLARD-LOWSLEY, Chief Engineer, Public Works Department, Central Provinces and Berar (Irrigation Branch), was next examined.

Written memorandum of Lt.-Col. Pollard-Lowsley.

Q. 15—(1) The charges levied for water supplied for irrigation at present produce a return which little more than suffices to cover the cost of the maintenance and running expenses of the Government irrigation works in the province The following figures compare the results of the last three years They exclude figures of the cost of maintenance and running expenses of works for which capital and revenue accounts are *not* kept, as these figures are not recorded separately —

—	Revenue from capital work	Revenue from non-capital work	Total revenue	Cost of maintenance of capital works including indirect charges.
	Rs	Rs	Rs	Rs
1921-22	4 77,671	94 025	5 71 696	9 32,087
1922-23	11 04,511	1,22 139	12,26 650	11 37 851
1923-24	10 37,169	1,35,163	11 72,632	10,97 197

(2) *It is not possible to judge the adequacy or otherwise of the existing rates* without first explaining the circumstances in which State irrigation was introduced into the Central Provinces and the return that it was expected would be received from it

Up to the commencement of the present century, there was no State irrigation in the Central Provinces Though in the past there had at times been considerable crop failure due to scarcity or ill distributed rainfall, the province had been regarded generally as *fairly* secure from famine, and it was not considered justifiable to expend on its protection the large sums that would have to be expended if the construction of irrigation works was undertaken by Government

The famines of 1896-97 and 1899-1900 brought the necessity for protection prominently to notice In 1899-1900 a sum of nearly Rs 4½ crores was expended in the province on direct relief, while further indirect expenditure of about Rs 1½ crores was incurred The total expenditure incurred in the famine of 1899 1900 was thus about Rs 6 crores, which is approximately the same as the expenditure since incurred on the construction of State irrigation works

(3) As a consequence of the famines of 1896 97 and 1899 1900, the Indian Irrigation Commission was appointed mainly to enquire into the extent to which the policy of the construction of State irrigation works should be undertaken as a protection against famine It is unnecessary here to refer in any detail to the reasons which led them to make their recommendations, and it will suffice to say that they recommended the construction of State irrigation works primarily to secure the *partial* protection of the rice area Full protection was not advocated, and indeed the Commission stated that it could not be provided except at a prohibitive cost The Commission did not anticipate that any net profit would be obtained from irrigation works in the province, and they contemplated that it would be a long time before the cultivators would pay any appreciable rate of irrigation They regarded a rate of Rs 2 as likely to be obtained only in the most advanced rice areas after a very considerable time, and referred to the very low rates of land revenue as likely to prove a bar to the rapid enhancement of irrigation rates They considered that eventually the receipts from State irrigation works would not exceed one per cent of the cost of their construction.

(4) Now the conditions in which irrigation is effected in the Central Provinces differ considerably from those in most other provinces in India In the large

irrigation provinces of the Punjab and United Provinces and in Sind, crops cannot be grown without irrigation and there is an assured market for irrigation in all years. In the Central Provinces some sort of crop can be obtained in practically all years without irrigation and in many years, unless some incentive is provided to establish a regular demand for irrigation, the cultivator will either refuse to take water or will defer taking it until it is too late for him to benefit materially from it. This incentive has been provided by the introduction of a system of agreements under which whole villages agree to pay for the irrigation of the whole area cropped with rice in the commanded area in all years, whether they take water or not. At one time agreements could be made for periods of one, five or ten years, but it has now been decided that all agreements shall be for a period of ten years.

Government undertakes, in the case of villages which enter into agreements, to supply water at specially favourable rates, and when the outturn is unsatisfactory to give liberal remissions of the water-rate. In the case of the first agreement for a period of ten years, irrigation is generally given free or at a rate of 8 annas an acre in the first year and it rises to Rs. 3, Rs. 3-8 or Rs. 4 by the end of the period of agreement.

This system not only [illegible] n, but it renders the irrigation of the ri[illegible] able proposition, and will, it is hoped, [illegible] in a fixed area and allow irrigation s[illegible] e remodelled to suit the conditions under which they are required to operate In the conditions obtaining in the Central Provinces, it would, in fact, be impossible to develop rice irrigation under a demand system and the continuation of the agreement system is essential

(5) The agreement system was introduced solely for the irrigation of rice and practically the whole of the rice area that is irrigated is assessed under this system The figures for the last three years are as follows :—

—	Area of rice irrigation under the agreement system	Area of rice irrigation assessed under the demand system.	Total rice area assessed
1921 22	409 110	6,805	414,408
1922-23	402 241	5 047	432 269
1923-24	423,574	3,838	451,401

It will be seen that very little rice irrigation is done on demand and in the few cases in which it is done the villages would undoubtedly enter into agreements if they could, but are prevented from doing so owing to opposition on the part of one or two occupiers who hold comparatively large areas of land. It will also be noticed that in the last two years the areas recorded as irrigated are appreciably less than the total areas assessed. This is probably due mainly to the fact that it is extremely difficult to record areas irrigated during the *kharif* season with any accuracy, and there is little doubt that practically the whole of the area commanded was irrigated.

The system has been applied to wheat under one small work and it is proposed to apply it to this crop under another work which is under construction But it has not been applied to any other crops

(6) A statement is attached detailing generally the agreement and demand rates in force for the various crops that are irrigated

Rice is the main crop that is irrigated and other crops are of very little importance For rice there are different rates for irrigation under agreement and irrigation on demand As already stated pratically all rice irrigation is done under agreement and the demand rate is of comparatively slight importance.

The sliding scale of agreement rates varies in the different districts. In the advanced rice-growing districts of the Nagpur Division and in Seoni it starts at from Rs 1 8 to Rs 2 and rises during the course of ten years to Rs 3-8 or Rs 4 There is only one tract in the Nagpur Division where a lower scale of rates is fixed, and that is the Baihar tahsil of the Balaghat district which is a backward tract largely inhabited by Gonds. In that tract the first ten years

scale of charges is from 8 annas to Rs 2. In the other more backward areas, of which the Bilaspur, Raipur and Drug districts are by far the most important, irrigation is either given free in the first year or a comparatively small rate is charged, and the maximum rate for the first ten-year period is Rs 3. But under certain tanks, after the first period of agreement of ten years had expired, a scale, rising to Rs 4 at the end of the second period of ten years, was introduced and this scale has b [illegible] villages that had had irriga [illegible] come into agreements for [illegible] of a year has occurred b [illegible] xpiry of the first agreeme [illegible]; into *new agreements*, especially when the monsoon appears likely to be favourable and it is anticipated that a fair crop will be reaped without irrigation This delay is an unsatisfactory feature, but it is only human nature to postpone incurring a liability as long as possible and at present there does not appear to be any way of avoiding it. Later on, if and when the demand for irrigation is in excess of the supply, it may be possible to lay down conditions which will result in agreements being renewed promptly when they expire, but it is not necessary to consider this point here

(7) The present maximum agreement rates for rice are low compared with those in most other provinces.

The following are the maximum and minimum rates for irrigation by flow in the more important irrigation provinces.—

Name of Province	Rate per acre for rice irrigation by flow		Remarks
	From	To	
	Rs A	Rs A	
United Provinces*	(a) 2 0	7 8	*Owner's rates amounting to 1-6 and ⅓rd of the occupier's rates are also charged in this province
Punjab	(b) 3 0	7 8	(a) Lower rates are charged in Bundelkhand and Rohilkhand
North-West Frontier Province	2 0	7 0	(b) This rate is applicable only to inundation canals
Madras	2 0	5 0	
Bombay	0 8†	4 0†	†Monsoon irrigation (four months
Burma	2 4	6 8	
Bihar and Orissa	2 0	(c) 5 0	(c) Rs 4-8 is the maximum rate for rice under a long term agreement

In making a comparison between the agreement rates in the Central Provinces and rates in other provinces, it has to be remembered that—

(a) in the Central Provinces only the partial protection of the crop is assured and the cultivators will not in bad years receive water to the extent required by them,

(b) in practically all years a crop, and often quite a good crop of rice, can be obtained without irrigation, while in most other provinces no rice crop could be grown without irrigation,

(c) State irrigation is of comparatively recent introduction in the Central Provinces

The conditions in the Central Provinces probably more nearly approximate to those of Bihar and Orissa than those of any other province in India, and compared with that province, and taking into consideration the fact that irrigation is comparatively new in the Central Provinces, the maximum agreement rates in this province cannot be considered to be low

The principle on which agreement rates are fixed is that they should be as high as can reasonably be levied without affecting adversely the development of irrigation, and this principle is undoubtedly suitable in the present state of development of irrigation in the province.

(8) Demand rates for rice are generally Rs. 6 or Rs. 8 In three cases they are less than Rs 6 but these cases are of little importance, as the area of irrigation affected is very small The rate of Rs. 8 is higher than that levied in any other province, but comparison with rates in the United Provinces cannot fairly be made, as in that province an owner's rate also is charged At present the demand rate is fixed at approximately double the maximum agreement rate. It is purposely fixed at a high figure, as it is not desired to encourage irrigation on demand Eventually, it is proposed in the case of rice to fix the demand rate generally at half the profit secured by the cultivators from irrigation in a year of bad or badly distributed rainfall.

(9) As already stated, the area of crops other than rice irrigated in the Central Provinces is small. In 1921-22 *only 21,533 acres of rabi and 724 acres* of perennial crops were irrigated, while in 1922-23 the figures were 9,122 acres *rabi*, 1,156 acres perennial and in 1923 24, 9,103 and 1,528 acres, respectively.

The area of *rabi* irrigated will fluctuate, depending on the condition of rainfall during the cold weather, but at no time will it be large and the cultivator will never agree to pay any high rate for such irrigation The irrigation of perennial crops can neve [illegible] the very large majority of the works in the [illegible] igate throughout the year In the few cases [illegible] ial crops can be assured, comparatively higl [illegible] he Balaghat district a rate of Rs. 25 per acre is already obtained for cane irrigation It is only fair if agreements are made for the irrigation of rice that the agreement villages should be given the benefit of all the water available, and, in the circumstances, no water can be reserved for perennial crops if it is required for rice The general policy in the province is to develop the irrigation of rice to the full capacity of all works, and as this is done the irrigation of *rabi* and perennial crops will become impossible and should be prohibited except in a few cases

The rates for *rabi* and perennial crops are gradually being raised, and if it is found possible, it is proposed eventually to fix them at a figure corresponding to half the profit secured by irrigation in a year of normal rainfall It is however unlikely that so high a rate will be obtained.

(10) I am satisfied that the charges for water supplied for irrigation in the Central Provinces are as high as can reasonably be levied in the present state of development of irrigation. They [illegible] will gradually be raised. I do not a [illegible] it will be possible to levy a highe [illegible] agreement, and there will be many [illegible] be exceeded during that period [illegible] of which is the reliability of a work, and it is only under very reliable works, which command areas occupied by a good class of cultivators, that a rate of Rs. 5 can be expected in the comparatively near future

I consider that the agreement system of irrigation is the only one that can be applied successfully to the irrigation of rice in the province It might be possible to apply systems (4) or (5) of those suggested in the questionnaire to other crops, but none of them could be applied to the irrigation of the rice crop

Systems 1, 2 and 3 all appear to assume that irrigation is essential to the production of crops, and that the demand is established No system which assumes this is suitable to the Central Provinces Systems 1 and 2 would involve levying rates which would be prohibitive and would cause grave discontent and a very large reduction in the area of irrigation They would, in fact, probably kill it altogether.

Under system 4 the cultivator would defer his application for water until the last moment, and neither the cultivator nor Government would secure the full benefit that they should secure from the works

System 5 assumes competition for the water. It could not be applied in the case of rice, as the quantity of water likely to be available is not known. In the case of *rabi* it might be used on small works, but it could not be adopted on large works, as the purchaser would not undertake the distribution

Q 16—(1) When land, which is newly brought under irrigation or is guaranteed a supply of water from a State irrigation work for the first time, increases largely in value, there can be no doubt that the State should receive a portion of the increase In the Central Provinces, though the increase in the value of the land is taken into account at the time of the re-settlement of a district, the extent to which the rent can be increased is so small that the increase which is actually made can ordinarily be secured whether the value of the land has been enhanced or not

A Settlement Bill has been drafted which will, if it is passed, allow Government to make a greater increase than is made at present in rents in areas where the value of land has risen due to the construction of a State irrigation work or to any other improvement effected by Government But it is not proposed to use this provision to secure anything approaching the maximum revenue which might in theory be extracted

(2) Rents generally are very low in the Central Provinces and the average maximum increase normally made at resettlement is 33 per cent It is proposed, in areas in which improvements have been effected by Government, to raise this percentage to 50 Rents of Re 1 an acre and less are not uncommon, and if a rent of Re 1 is raised to Rs 1 8, the State will secure only 12 annas of which only $1\frac{1}{3}$rd annas represents the additional revenue to the State on account of the improvement effected Seeing that the value of the land may have risen from, say, Rs 40 to Rs 150 or more an acre due to this improvement, it is obvious that the State takes only a very small part of what might be taken.

(3) It is, however, not politic at present to attempt to enhance rents on any large scale in areas that are commanded by State irrigation works. The works must first be popularised and irrigation must be established Even the small increase which it is now proposed to make in rents is regarded by some officers with disfavour They argue that it would be better to fix water-rates so as to obtain the full value of the water directly in the shape of water rates than to attempt to obtain any part of it as land revenue They also pointed out that when rents are increased, only half the increase goes to Government, while when water-rates are increased, Government obtains the whole Officers who are in favour of the enhancement, of rents point out that the increase in the rents, being so small, will have no effect whatever on the rate at which water-rates can be increased and that though only half the increase in rent is obtained by Government, that increase is made on the whole area commanded and applies to areas that are not irrigated as well as to areas that are irrigated Unless rents are raised, unirrigated areas situated in tracts commanded by a State work pay nothing whatever for the advantage of being in a tract which is, for all practical purposes, *secure from famine*

(4) At present I do not consider it desirable to go further than is proposed in regard to enhancement of rents in irrigated areas It would however, not be unreasonable to tax sales of land in these areas fairly heavily and to credit to the account of the irrigation work concerned the amount of the tax on the difference between the enhanced and previous value of the land No doubt a tax of this kind would be difficult to apply, as the true price paid would be concealed To start with the State might take 25 per cent of the difference between the price paid and the value of the land prior to the construction of the work from which it benefits I understand, however, that there are certain difficulties which would render any such scheme largely inoperative. One of these difficulties is that occupancy tenants, who form a large proportion of the occupiers, cannot sell their land, though they do so in an indirect manner. If any such tax as proposed were levied, I am inclined to think that payment should be made in one sum.

Statement of agreement and demand rates in the Central Provinces.

District.	Rice.		Rabi (wheat, gram, etc.)		Sugarcane.		Garden crop.	Fruit orchards	Clover and other fodder crops.	Ground-nuts.	Plantains.	Cotton.	Kodo.	Sweet potatoes	Castor.	Supply of water to fill private tanks.	Remarks.
	Agreement	Demand.	Agreement	Demand	Thick	Thin.											
	Rs	Rs.	Rs.	Rs A.	Rs.	Rs.	Rs	Rs.	Rs.	Rs	Rs.	Rs.	Rs.	Rs.	Rs	Per 10,000 c ft Rs A.	
1. Nagpur and Bhandara	* 1919-20 to 1928-29, Rs. 1-8 to Rs 3-8	8	..	1 0	20		8	15	8	3	15	1	.	.		1 0	*With a rebate of As. 12 on wet rated areas coming under agreement.
2 Chanda	* 1920-21 to 1929-30, Rs 2, Rs. 2-8 to Rs 4.	8	.	1 0	20		8	12	8	3	15	1	...	..	.	1 0	Do
3 Balaghat Tanks and Wainganga Canal	* 1919-20 to 1928-29, Rs 1-8 to Rs 3-8	8	.	1 0 1 8 for canal.	25 for Pathri and canal, Rs 20 for other tanks.		10	10	..	3	12	1	.		..	1 8	Do.
Do Baihar Tanks	† 1920-21 to 1929-30, As 8 to Rs 2	4	..	1 0	Do		10	10		3	12	1	..	...	..	1 8	† With a rebate of As. 4 on wet rated areas coming under agreement.
4 Jubbulpore	From free in the 1st year to Rs 3 in the 10th year. On some tanks the rate commences with As 8 and Re 1	6		2 8	20	16 for medium and thin.	12	12	12 6 for clover only.	2 8	12	1	1	..	.	1 6	With a rebate of As 12 per acre on wet rated areas provided that where the water rate does not exceed Rs. 1-8 a rebate of 50 per cent is allowed.

5. Seoni	1919-20 to 1929-20, Rs 1-8 to Rs 3-8	6	..	1 8	..	20	10	10		2 8	15	1	..	..	..	1 8	
6. Nimar		4	..	4 0									1				
7 Damoh	‡1922-23 to 1929-30, As 8 to Rs 3	6		2 8	12	8 for medium and thin	12	11	12	2 8	12	1	1			1 0	‡Do
8 Saugor		2 3 for Ratona only	*Chandia Nalla* 1924-25 to 1928-29 Rs 4 *Narayanpura* 1923-21 to 1926-27, Rs 3, 1927-28 to 1930-31, Rs 3 8, 1931-32 and 1932-33, Rs 4	5 0 2 8 for Ratona only	12	8 for medium and thin	12	12	12 1 per watering for cloves for Ratona	2 8	12	2	1				Rebate of Re 1 on wet rated area. Where a double crop is grown rebate to be given on one crop only
9 Bilaspur	§ 1920-21 to 1929-30, As 12 to Rs 4	6	..	1 0		15	10		5	3 0	.	1st year, free, 2nd to 5th Rs 3 8 to Rs 5	1	3	1	1 0	§Rebate of As 8 on wet rated areas
10 Raipur Kumhari	‖ 1st year As 8, 6th to 10th year, Rs 3		..														‖Rebate of As 0 on wet rated areas
11 Raipur and Drug Other tanks	1922-23 to 1931-32, Rs 2 to Rs 4																
Mahanadi Canal Tandula Canal	1st year free, 2nd to 6th As 8 to Rs 2-8	6		1 0		15	5	10	5	3 0	15	5	1	5		1 0	

Lieutenant-Colonel Pollard-Lowsley gave oral evidence as follows :—

The President. Q.—Are you Chief Engineer for Irrigation both for the Central Provinces and Berar?

A.—There are no irrigation works in Berar.

Q.—You deal solely with irrigation?

A.—Yes.

The Maharajadhiraja Bahadur of Burdwan Q.—Is there not another Chief Engineer in the Public Works Department?

A.—Yes, we have two branches.

The President Q.—On page 197 of your statement, you supply certain figures showing the return of irrigation works Do they include land revenue?

A.—Yes, but our indirect revenue is negligible

Sir Percy Thompson Q.—What is land revenue due to irrigation?

A.—Supposing there is an uncultivated area which is brought under cultivation due to the construction of an irrigation work, we should get land revenue on that.

Q.—You would not take normal increases into account?

A.—I have dealt with the question to some extent in my note, *i.e.*, the question of enhanced percentage in cases in which Government provide irrigation

The President. Q.—The actual calculation would vary from province to province

A.—It is practically negligible here

Q.—The whole of your irrigation is protective?

A.—As a matter of fact, there were three works sanctioned as productive. One has since been reclassified as unproductive; the chances of the other two becoming productive are not bright.

Dr. Hyder. Q.—What is the difference between capital works and non-capital works?

A.—A capital work is a comparatively large work for which capital and revenue accounts are kept; a non-capital work is a smaller work for which it is not worth while keeping capital and revenue accounts

The President Q.—You say on page 197 of your statement that the Irrigation Commission recommended the construction of irrigation works primarily to secure the partial protection of the rice area Does that mean protection of part of the area or part of the crop in the whole area?

A.—When the Irrigation Commission made their recommendation, the question of the agreement system of irrigation had not been raised As things now stand, it means the partial protection of the whole rice area commanded in those villages which have come under agreement

Q.—The position is that you can grow your rice to a great extent without irrigation water.

A.—Yes.

Q.—You have the water in reserve in case there is any failure of the rains.

A.—Yes.

Q.—There is no attempt to regulate the quantity of water by area?

A.—There is in reality, because, under the agreement system, we undertake to give equality of distribution, *i.e.*, we try to treat all villages under agreement in the same way.

Q.—What is the plan for distribution?

A.—The channels are designed to suit the area which it is proposed to irrigate We cannot, however, do that correctly in the beginning because we do not know what areas we are going to irrigate What we do generally is to design the channels to suit the irrigation of those villages which we expect to come under agreement.

Dr. Paranjpye Q—Do your tanks get dry during the greater part of the dry season?

A.—Some do and some do not; it depends on the season and other considerations, such as the relative sizes of the tank and its catchment, and the area irrigated by the water.

Q—Suppose your tanks are full and you have a good monsoon, your water will not be used at all.

A—With an average rainfall well distributed and carrying on up to the end of October, people should not require water.

Q—Your water will then be entirely useless?

A—That does not follow. I have never known a year in which large areas have not been irrigated and the people would not take the water if they did not expect to derive some benefit from it

Q—In such seasons, would it be possible to use water for a second crop?

A.—Yes We are quite prepared to give water when people want it. The trouble is that they do not usually want water for *rabi*.

The President Q—Do the villages agree to take as much water as you have got?

A—No. The villages agree to pay certain rates on the whole area commanded and cropped with rice, whether they get water or not They do not agree to take a particular quantity of water We undertake to distribute water equally in proportion to their rice areas under agreement

Q.—You have a fixed area to which the agreement applies?

A—We take all the area that grows rice under command in each village

Q—At a particular date?

A—Yes, when the agreements are drawn up, but they are intended to apply to expansions of that area, though that is not actually stated in them.

Q—It is not an agreement that they will pay so much on so many acres?

A—It is a rising scale of rates for the whole area which is commanded.

Sir Percy Thompson Q—Can rice be grown on the same land for each period of agreement of ten years?

A—Yes, rice is grown continuously in the same fields No rice area is left uncropped except for reasons such as lack of seed, absence of the occupier or lack of labour

Q.—Is there no rotation of crops?

A—No

The President Q—Supposing 20 villages grew 100 acres each in the first instance and at the end of 10 years, they had 200 acres each

A—Then we would reconsider our agreements We do not take an excessive area under agreement We ought not to and we do not, as a rule, take more villages than we can actually irrigate during the whole period of the agreement Expansion is very slow

Q.—Is there any calculation?

A.—There is a figure fixed for each tank under agreement, *i e*, the area of *rice which that tank is considered to be capable of irrigating under agreement*

Q.—If you have more water to spare, do you allow it to go for *rabi*?

A—Yes, for rabi or sugarcane or other crops which can suitably be grown under the work

Q—All within the area?

A—We cannot go beyond what our channels command.

Q—Don't you have the ayacut under the tank defined and let the water pass to few more fields?

A.—But it will still be in the commanded area Our channels distribute water within the area commanded by them and we cannot go outside that area without extending the channels

Q—You don't have a definite calculation that a tank has so many cusecs?

A.—We calculate everything; we have a diagram which fixes the irrigating capacity of a tank, depending on the proportion the capacity of the tank bears to the average yield. On that we fix roughly the area to be irrigated. We cannot apply that diagram to all tanks The bigger the capacity the larger the area to which water is distributed, and the less the area irrigated by each million cubic feet in the tank owing to losses due to absorption and evaporation in distribution. Eventually the irrigating capacity of each tank is fixed on experience of its working.

Q.—Have the agreement people a prior right for water?

A.—They have no prior claim under the terms of the agreement, but we always deal with the agreement people first

Sir Percy Thompson *Q*.—What are the rights of the man who is under the demand system?

A.—He has no rights whatever.

Q.—Supposing he asks for water some time beforehand, would you say to him "you must wait until you get water"? Supposing I came along now and said that I would want water next year?

A.—You must come under agreement, you cannot come as an individual.

Q.—Is there not a stage at which next year I can come and say "I want water this year"?

A.—We have abolished the one year agreement system The trouble involved in working it was incommensurate with the advantage gained

Q.—When does a village come under the demand system?

A.—If a village is not under agreement, either the village or an individual can apply for water at any time when they actually require it Whether they get water or not depends upon whether we can give it with due regard to our commitments under the agreement system

The President *Q*.—I take it that the agreement and the Madras systems amount practically to the same thing. Under the Madras system, any land outside the ayacut pays a water rate which is much higher than the rate paid by the guaranteed area.

A.—That is very much so, but here it is entirely voluntary with the people.

Q.—There is no provision under which the majority of the ayacut holders can force the rest?

A.—We make an agreement with a village, provided the occupiers of 30 per cent of the commanded area in that village, which is under the crop concerned, agree That is the provision of law

Dr. Hyder. *Q*.—Your system is more or less an insurance system?

A.—It is a partial insurance system We do not guarantee a full crop, but we grant remission of water rate when the crop is below a certain standard.

Dr Paranjpye *Q*.—In the table attached to your statement, you have a column "supply of water to fill private tanks" What is that for?

A.—If a man, owning a tank, uses up all his water or if his supply is low and he wants us to fill the tank, we do so at the rate shown in this column.

Q.—Are there many such private irrigation tanks?

A.—Yes. There is a very large number of private tanks in this province.

The President. *Q*.—Why do you limit the supply to rice?

A.—We do not limit the supply to rice, but rice is the one crop for which you must provide an incentive for irrigation and this is done under the agreement system Rice is also by far the most important crop from an irrigation point of view.

Q.—Don't you allow an agreement village to grow a dry crop with the aid of irrigation?

A.—Water may be given on demand for any crop. The irrigation of rice on demand is, however, not a practical proposition in the Central Provinces. If two or three cultivators with rice fields in different parts of an area commanded from an outlet asked us to irrigate their rice fields, it would be impossible to do so without passing the water through the fields of other cultivators who had not asked for it. The result would be that most of the area commanded from

the outlet would be irrigated, but only the men who asked for water would pay for it The irrigation of individual fields would require a most complete system of water courses, which it is hopeless to expect and so with such a system it would be extremely difficult

Q—Supposing your tanks were half-full, is it not open to them to sow any other crop instead of rice, which is bound to fail?

A.—You can't tell at the beginning of the season what the position will be. We rely very largely on the rains of the year in which we are irrigating In some cases we may at times have a big carry-over; in our tanks at present we have eight thousand million cubic feet

Q—Generally speaking, you rely on the monsoon rainfall of the year on which you are irrigating

A—Yes I know a tank which has been working for 18 years and I found that in only one year during those 18 years was a less quantity of water received than was actually required during that year Generally, we get enough water for our irrigation if we do not fix the agreement area at too high a figure

Dr. Hyder *Q*—The majority of your works are tanks?

A—We have only one canal which is not any way dependent on storage.

The President *Q*—On page 198 of your statement you say that in the last two years the areas recorded as irrigated are appreciably less than the total areas assessed and that this probably is due mainly to the fact that it is extremely difficult to record the areas irrigated Did they all pay?

A.—Yes, we only keep our records of irrigation for our own information. They are not and cannot be very accurate

Dr Paranjpye *Q*—If an area under agreement does not get water, it will still pay for it?

A—Yes If the crop is up to a certain standard. But we treat the tenants fairly. Our whole existence depends on the cultivators being contented, and they will not be contented unless we treat them fairly

The President *Q*—May we go to the table on page 199 of your statement—maximum and minimum rates for irrigation by flow? This is for rice only?

A—Yes

Q—I do not think your figure is quite the maximum in Madras.

A—I took these figures from the annual Administration Reports, they may not be quite correct

Q—The more it costs you to complete a work the higher the rate you would have to charge

A—That would be a commercial system but it would not be suitable to the Central Provinces

Q—Quite recently, we put the rate for rice up to Rs 10.

A—We charge Rs 25 for cane But we get a very much bigger return from rice For rice, if we charge a rate of Rs 4 as a normal rate, we get about Rs 100 for every million cubic feet of tank capacity There is very little loss due to absorption, etc, as the irrigation is done in the rains In the case of cane if we charge Rs 25 an acre and do one acre for one million cubic feet we obtain a return of Rs 25 per million cubic feet If we irrigate wheat, we do 10 to 12 acres per million cubic feet, and if we charge Rs 2 or 3, we make Rs 30 So, rice will give a return of about Rs 100 for a million cubic feet, and wheat and cane give very much less.

Q—Wheat takes much less water.

A—Losses in distribution, due to absorption, etc, are so high that they wipe out the advantage.

Sir Percy Thompson *Q*—Why is that?

A.—Rice irrigation is done in the rains when the soil is saturated. Rice is the most paying crop from our point of view From the cultivators' point of view, cane is better but it requires capital

The Maharajadhiraja Bahadur of Burdwan Q—Is rice the staple food here?

A—Yes, in the south. In the north, it is wheat.

Dr Paranjpye Q—On page 200, you say that eventually in the case of rice it is proposed to fix the demand rate generally at half the profits secured by cultivators from irrigation in a year of bad or badly distributed rainfall. *Before that, you said it would be impossible to find out the return.*

A—I do not think I said that. It is very difficult to ascertain the profits, because they vary from year to year. The rainfall varies and we can only ascertain the average profits by observations over a period of years, we can ascertain the profits in a really bad year on the observations of one or two bad years, but we have not got these figures yet

Q—But the profits of the bad year are distributed over the good years.

A—Yes, in considering the agreement rates

The President Q—On page 197, you say that the Irrigation Commission referred to the very low rates of land revenue as likely to prove a bar to the rapid enhancement of irrigation rates

A—The idea was that people who are accustomed to pay so little as land revenue would regard a rate of Rs 2 or Rs 3 for irrigation as absurd. For this reason we have had to start with very low rates The disadvantage applies only in the beginning and eventually the low rate of land revenue will enable us to charge a higher irrigation rate than would otherwise be possible. If we had started with a rate of Rs 4 the people would not have taken water at all

Q—What cases do you refer to on page 200 as those in which the irrigation of perennial crops can be assured?

A—We have a few works which we can rely on to be full or nearly so at the end of the monsoon and under these works we can irrigate cane and fruit gardens with fair confidence.

Q—Your proposal is to tax sales of land?

A—Yes

Q—You would not like the idea of a betterment tax?

A—If you levy any appreciable betterment tax, you would have difficulties over your water-rate But if a man is prepared to buy land, I don't see why he should not pay a little extra which will go to us It is absolutely essential that we should do nothing to interfere with development

Q—In Madras, they have gone to the extent of making a man who is in the demand area pay an inclusion fee to come into the agreement area.

A—We have not got to that position yet

Sir Percy Thompson Q—Would you take a percentage on the sale price?

A.—I would take a percentage on the difference between the sale price and the value of the land as it was before State irrigation became available.

Dr Paranjpye Q—How are you going to determine it?

A.—I would leave it to the Deputy Commissioner.

Dr. Hyder Q—Why not have it in all cases, why only in the case of sales?

A—When a man sells some of his land, there is a reason for taking something which does not exist in the case of the man who does not sell his land. If you tax all land in the commanded area whether sold or not it would certainly render irrigation unpopular if the tax was appreciable.

Sir Percy Thompson. Q—Won't you take anything from the vendor?

A.—Whichever you take the sum from, both will pay. If the purchaser is taxed he will pay less to the vendor that he would pay otherwise. If the vendor is taxed he will take more from the purchaser

Dr. Paranjpye. Q—Would not there be collusive prices?

A—Yes It would, I realise, be extremely difficult to say what the actual sale price was.

The President Q—Have you any idea of the percentage of increase irrigation has caused?

A.—The figures I have given in my note are nothing out of the way. Rs. 40 to Rs. 150 is quite a normal increase; even Rs 200 would not be out of the way at all.

Q—Would you consider 25 per cent. of Rs. 110, i.e., Rs. 27½, sufficient, spread over 25 years?

A.—Spreading the charge over a number of years makes it easier for the cultivator, but it means keeping accounts.

Sir Percy Thompson Q—When is the time to get it?

A.—If you make it a yearly payment, and not in a lump sum when the sale takes place, it looks as if it is a tax and this is undesirable.

The President Q—You say the Settlement Bill will allow Government to make a greater increase than is made at present in rents in areas where the value of land has risen

A.—There is a provision to the effect that, where an improvement has been made by Government, a higher percentage may be charged than the normal percentage; the idea is that the percentage may be raised from 33 to 50.

Sir Percy Thompson Q—Whatever increase you make in the rent, Government will take 50 per cent out of it by way of land revenue?

A.—Government will get half the increase and the landlord, who has done nothing, will get the other half.

The President. Q—On page 201 of your statement you say that occupancy tenants cannot sell their lands

A.—Yes.

Q—They can sell their rights in the land?

A.—I discussed that point with Mr. Dyer, I do not know very much about it. Indirectly occupancy tenants do sell their land

Sir Percy Thompson Q—I am not quite clear about the demand system. If a village is inside the area which is covered by the irrigation system, the cultivator can come at any time and ask for water and you say that he cannot have it, if you have not enough to spare?

A.—Yes In the case of rice, the cultivator who obtains water on demand pays about double rates

Q.—Your rates are fixed?

A.—We reconsider all our demand rates annually; and reconsider agreement rates shortly before periods of agreement expire

Dr. Hyder Q.—When do you do this?

A—We do it now, at the beginning of the year, and the revised rates apply to the coming year

Sir Percy Thompson Q—The man who is growing rice wants water generally at a time when you haven't got it and at the time when you have a large quantity, he does not require it?

A—Quite so, the reason why the acreage of rice irrigated on demand is falling is because the people who want water come under agreement.

Q—I suppose also that people find that they do not profit by the system of demand rates.

A—Those who take water for rice on demand are mostly those who would enter into agreements if they could In most cases they cannot because the malguzar refuses to be party to the agreement.

Dr. Hyder Q—What is the reason for the malguzar standing out?

A.—In some cases his idea is that, if his tenants are too well off, he will lose his authority over them. But there are many other reasons, and very often it is the absentee landlord who prevents us from obtaining agreement.

The President Q—What is the procedure in regard to the annual revision?

A.—Every Executive Engineer draws up his proposals for the rates to be levied for the irrigation of various crops during the next year. These proposals go to the Superintending Engineer, who sends them on through the Deputy Commissioner and Commissioner to me and the Local Government then makes any changes that are considered necessary

Q—On what basis do you revise?

A—On what we think ought to be done

Sir Percy Thompson Q—Is balancing the budget any consideration in the revision?

A—No

Q—Supposing in the current year there is a bad monsoon, would you alter your rates for the next year?

A—We should not put up rates on that account Once the rates settle down, there will be no necessity for these annual revisions, and it will probably suffice eventually if rates are reconsidered every four or five years

The President Q—These are demand rates?

A—Yes Agreement rates are fixed for each period and are reconsidered when agreements in any area are due to expire.

Dr Paranjpye Q—Your total expenditure on irrigation up to date is about 6 crores of rupees?

A—Yes

Q—Is there more room for extension?

A—Yes, we have a programme on hand which will cost about another 4 or 5 crores

Q—There are prospects of having enough water for these irrigation works?

A—Yes

Q—You haven't got any heavy rainfall here as in the Western Ghats?

A—No

The President Q—Do you find that works started as protective works tend to become productive?

A—At the present moment I am undertaking the consideration of the development of every work that has been constructed We have constructed something over 100 works and every one of these has to be examined with a view to its development Each will require some remodelling, because, when we started construction, we did not know accurately what parts of the area commanded we were going to irrigate We have not yet reached anything like full development, it will take a long time yet

Dr. Hyder Q—Are your irrigation works in the south, north, east or west?

A—Our most important works are in Chhattisgarh We have a fair number in the Nagpur tract but in the north we have only small works The north, from the point of view of development, is the most unsatisfactory area The people are far more backward there and they do not regard rice as their chief crop Wheat is their main crop. There is not the same demand for irrigation in the north as in the south

Q—You do not do anything with the water of the Nerbudda?

A.—No As things are at present, we should not be justified in spending any large sum on irrigation works in the north of the province We are quite justified in going on in the south.

12th February 1925.

Nagpur.

PRESENT :

Sir CHARLES TODHUNTER, K C S I , I C S , President

Sir BIJAY CHAND MAHTAB, G C.I E , K C S I , I O M , Maharajadhiraja Bahadur of Burdwan

Sir PERCY THOMPSON, K B E , C B

Dr R P. PARANJPYE

Dr L K HYDER, M L A

Mr. C. U. WILLS, I.C.S., Excise Commissioner, Central Provinces and Berar, was examined.

Written memorandum of Mr. Wills.

Q 61—"Prohibition" in English ordinarily implies prohibition of alcohol only, since in European countries the use of drugs as an intoxicant has long been totally prohibited by law But in the Central Provinces and Berar, about which alone I am qualified to speak, present statistics of consumption indicate that quite as much intoxication must be ascribed to drugs as to alcohol Prohibition of drugs, however, is seldom advocated, as their use does not, for certain historical reasons, offend orthodox social opinion Prohibition of alcohol, on the other hand, is frequently urged, but I do not anticipate its introduction now or in the near future, either generally in this province or in particular areas Such prohibition has been imposed in the neighbouring State of Bhopal, presumably because the ruler of that State is a Muhammadan who felt bound to subscribe to one of the main tenets of Islam It is also possible that an Indian Minister might favour prohibition of alcohol in the Central Provinces and Berar for similar reasons, but, in view of the difficulties of enforcing it at present and of the danger of attempting to do so without a corresponding restriction on the use of intoxicating drugs, I cannot suppose that the Provincial Government would accept a prohibition based mainly on a religious and social prejudice unless supported by a marked change in the attitude of the numerous drinking classes in the province some of whom regard the use of alcohol as a religious necessity During the four years I have been associated with the Excise Department in the Central Provinces and Berar, I have, indeed, witnessed a change in the attitude of many drinking classes towards the use of alcohol, but this change was temporary Now that the social and religious movement (known as the non co operation movement) which inspired hostility to drink has disappeared the drinking classes have for the most part, reverted to their former habits There is at present little indication that the popular feeling among the drinking classes differs very widely from what it was five years ago I, therefore, do not consider that prohibition of alcohol is at present in this province within the range of practical politics.

Q 63—I would accept all statements quoted in this question which, as I understand them, emphasize the view that the taxation of intoxicants is not only justified for revenue purposes on general economic grounds but is also

properly regarded as an administrative weapon for the enforcement of restrictions calculated to prevent abuse. This, the revenue *cum* temperance point of view, is laid down in the Government of India's Resolution of 7th September 1905 "The Government of India have no desire to interfere with the habits of those who use intoxicants in moderation this is regarded by them as outside the duty of the Government and it is necessary in their opinion to make due provision for the needs of such persons. Their settled policy, however, is to minimize temptation to those who do not drink and to discourage excess among those who do". But such a policy as this does not, in my opinion, satisfy social requirements in the Central Provinces and Berar for these reasons.—

(1) There is, in this province, a definite social prejudice against liquid intoxicants in any form which has the support of orthodox religious opinion among both Hindus and Muhammadans. Individual Hindus and Muhammadans of the better classes do drink; there are numerous castes among whom the use of alcohol is permitted by custom and there are certain forest tribes among whom on occasions the use of intoxicating liquor is still a religious necessity But what is recognised by all Indians in this province as the *best* social opinion definitely condemns the use of alcohol altogether and this condemnation has, in many instances, been supported by the leaders of opinion among the very classes who are most prone to drink and even among the forest tribes

(2) In western countries alcohol is the only intoxicant which presents a serious social problem In this province drugs are, at least as extensively consumed as alcohol and it is, I think, illogical to lay down a policy in regard to one class of intoxicants which will not be applicable to the other class. The eventual restriction of the use of drugs to medicinal purposes is a legitimate goal for our excise policy and, in my opinion, the same attitude has in this province been rightly adopted towards alcoholic liquor also

(3) In this province the use of alcohol is mainly confined to the lowest classes of society. There is little attempt that I am aware of to cultivate the palate or the pleasures of drinking for taste only. Alcohol is, I believe, primarily consumed in order to obtain some physical sensations at least preliminary to intoxication Thus the Central Provinces and Berar Excise Committee of 1904 wrote "Indian populations use intoxicants chiefly for the effect on the brain The consumers of imported liquor fall for the most part under a different category, those that drink for taste" (paragraph 59) It is significant in this connection that country spirit of the highest issue strength and even foreign liquor is commonly taken neat without any admixture of water, by Indian consumers.

(4) It seems to me that the use of alcohol, whether from the above or from other climatic or physiological causes, is somewhat more detrimental to the average Indian consumers than to ordinary consumers in the United Kingdom

For these reasons I consider that a merely revenue *cum* temperance policy is not enough. Government's policy in regard to intoxicants should go further and should associate itself with what is generally regarded as the best and most orthodox Indian social opinion · This orthodox opinion is not based on a scientific estimate of the effect of intoxicants on the physical condition of the consuming classes but on a social sentiment or religious prejudice which may have originally been derived from considerations of public welfare but is now largely independent of it It follows from this that taxation should be employed as a weapon not merely to minimize temptation to those who do not drink and to discourage excess among those who do but also to discourage the use of alcohol by Indian consumers generally. It should also be employed as a weapon to discourage generally the use of other intoxicants such as opium, *ganja* and *bhang*. Such a policy can only advance gradually as the drinking classes are won over to the orthodox point of view and as those who take drugs are persuaded that their use is harmful. It will involve, therefore, only a very gradual curtailment of excise revenue which may well be made good by the gradual expansion of revenue from other existing sources.

Q. 64—The Excise policy of this province is primarily defective because it lays down a system of gradually increasing restriction directed to the attainment of ultimate prohibition in the case of alcoholic intoxicants only. The taxation on all forms of alcohol has, therefore, been raised to the highest point possible. The taxation on drugs has also been raised substantially in the past but is, in my opinion, susceptible of a much greater increase if the duties in other provinces are co-ordinated and if measures are taken to curtail smuggling from the Central India States. In the matter of taxation on intoxicating drugs the policy followed in this province is justified by existing circumstances but falls short of what I would approve if certain limiting circumstances could be altered.

Q 65.—The rates of duty in this province vary from *nil* to Rs 20 per proof gallon. They are all adjusted to meet the paying capacity of the drinking classes in different areas Continuous attempts are being made to reduce the variety of duty rates but it is in practice impossible to do much in this direction. The application of a uniform rate as in other countries would be utterly impracticable.

Q 66.—Recent increases in the rates for country spirit have been followed by a considerable increase in illicit production The increase in illicit production cannot, however, be wholly attributed to the increase in taxation Representatives of the Swaraj party have openly advocated illicit distillation especially in jungle areas, have urged consumers not to take their liquor from licensed shops and have generally tried to bring the authority of government into contempt This has weakened the control exercised by the excise staff and has at the same time given a stimulus to illicit distillation

Qs 67 and 68—I find it necessary to answer these questions together In my opinion the taxation on foreign liquor should be entirely under the control of the Provincial Government subject to the proviso that the duty rate imposed both on imported and on locally-made imitations of imported liquor must be not less than the tariff rate The duty on all foreign liquor whether imported or Indian made, which is consumed within the province, should be credited to provincial revenues and any claim on account of customs on imported spirit on the part of the Central Government should be settled by a *fixed* annual assignment from provincial to central revenues.

The difficulties presented by the present system which allows a duty fixed by the Central Government to confer on imported liquor freedom from all restrictions on transport are as follows —

(*a*) The restrictive policy accepted in this province in the case of country spirit is unduly hampered in every locality where foreign liquor is sold It is impossible to raise the country spirit duty beyond Rs 20 per proof gallon when the foreign liquor tariff rate is only Rs 21-14-0.

(*b*) There is also an undesirable conflict between provincial and central interests The tariff duty on imported liquors goes to the Central Government The duty on Indian made foreign liquors goes to the Provincial Government Our Excise Department must necessarily regard with favour any displacement of imported by Indian made varieties as every proof gallon of such displacement means an addition of Rs 21-14 0 to the provincial revenues

In view of the difficulties which already exist in this province owing to the freedom of transport allowed to imported liquor I would strongly oppose any extension of the same privilege to locally-made imitations On the contrary the freedom of transport at present given to imported liquors should be done away with and duty should be assessed, at any rate in this inland province, by the Provincial Government on all liquor consumed within its borders subject to the proviso already mentioned that this duty rate must not be less than the customs tariff This proposal is similar to the suggestion that supplementary duties on foreign liquor be imposed by Local Governments but differs from it because the latter scheme would do nothing to remove the present divergence of provincial and central interests due to the fact that the tariff on imported liquor goes to the Central Government while the duty on Indian made foreign liquor goes to the provincial revenues.

Q. 71.—There is no *charas* now sold licitly in this province *Bhang* is a mild intoxicant mainly consumed in this Province by the well-to do classes. The duty on it was abruptly enhanced from Rs. 2 to Rs. 5 per seer in 1922 in this province with no great effect on consumption There may be no very good reason for the divergence of assessment of *bhang* in different provinces. On the other hand there is, from the point of view of this province, little to be gained by bringing it into line In the case of *ganja* this single term covers productions of widely differing narcotic power. Both the Ahmadnagar *ganja* of Bombay and the *balluchar ganja* of Bengal, Bihar and Orissa are far more potent than the local *ganja* produced and distributed under Government supervision in the Central Provinces and Berar In view of the wide diversity of quality I doubt the need or, indeed, the desirability of imposing uniform rates At the same time little is done to co ordinate the taxation in different provinces The Central Provinces and Berar suffer a good deal, for example, from smuggling from Khandesh In self-defence this province has been compelled, contrary to its own policy, to provide *ganja* of stronger narcotic power to shops on the Bombay border There is a similar but less acute difficulty on the Bihar side If the Central Government were to arbitrate in difficulties of this kind a settlement of them might well be found which is hardly at present attainable There is, in short, ample reason for variety in rates, but the variety which exists at present is, in no way, the result of any reasoned adjustment between this and neighbouring administrations

Q 77—Smuggling of opium is of two kinds, organized smuggling mainly towards Calcutta and Bombay and eventually, perhaps, towards Burma and petty smuggling across the Central Provinces borders Practically all this contraband emanates from Central India The problem is a grave one So far as organized smuggling on a large scale is concerned this province is protected simply because there is a far better market elsewhere At the same time "foreign" opium from the Central India States is not infrequently found in transit in large consignments amounting in some cases to half a maund or more The seizure of quantities of five or six seers at a time is common. As regards petty smuggling the evil is so extensive that along the borders of certain States to a depth of eight or ten miles in British territory the sale of Government opium has practically ceased

The explanation of this state of affairs is to be found simply in the wide disparity of prices The issue rate for opium in the Central Provinces and Berar is Rs 75 per seer In Gwalior it is Rs 23, and in Indore Rs. 30

In these circumstances, any arrangements for control by the consuming province are bound to be but partially effective at the best But, as I am ignorant of the administrative and political difficulties of control in the Indian States, I am unable to suggest what revision of the existing arrangements is practicable.

Mr. Wills gave oral evidence as follows :—

The President. Q.—You are the Commissioner of Excise?

A —Yes.

Q —Have you any other duties?

A.—Recently I have been made Superintendent of Stamps also.

Q —Can you tell us anything about salt?

A.—No; I know nothing about salt. We have no manufacture of salt here.

Q —Of course our concern with excise is purely from the taxation point of view. The temperance point of view interests us in so far as it affects taxation You say 'the present statistics of consumption indicates that quite as much intoxication must be ascribed to drugs as to alcohol' Have you any statistics of intoxication?

A —No, it is purely my personal opinion.

Q —You say 'prohibition of drugs, however, is seldom advocated, as their use does not, for certain historical reasons, offend orthodox social opinion'. What are the reasons?

A.—Under the Moghuls the use of liquor was totally forbidden but the use of drugs was not. As mentioned in a book by Professor Sarkar on Moghul administration, this rule was enforced by the Muhammadan authorities

Q.—On the other hand, certain tribes regard alcohol as a religious necessity.

A.—I believe they do to a certain extent

Q—You do not consider that prohibition of alcohol is within the range of practical politics?

A.—No.

Q—Would you go a good deal further than the resolution of the Government of India of 1905?

A.—Yes That is the Local Government's policy The Government of India wished to make permanent provision for the moderate consumer The Local Government aims at prohibition

Q—Would you accept the United Provinces formula which is defined as the subordination of considerations of revenue to promotion of temperance?

A—I have always understood that revenue considerations were subordinate even under the old policy of the Government of India

Q—It was maximum revenue and minimum consumption

A—Yes But that policy was to be carried out regardless of revenue considerations.

Q—Your own policy is promotion of temperance without regard to revenue?

A—Yes.

Q—So that you look to a reduction in revenue?

A.—Yes, eventually But in actual practice we have recently got an increase of revenue This year we expect to get a higher revenue than we have ever got before

Dr Paranjpye *Q*—Is it due to the fact that there is no Minister at present? I ask this because I have been told so by certain persons

A—That is a gross libel The revenue has gone up because of the unusually high cotton prices and because of the high restrictive rates

Dr. Hyder. *Q*—Because of the agricultural prosperity?

A—Yes, there are a variety of causes The price of cotton, which was the highest ever known in the province, is the chief cause as most of our revenue comes from the cotton districts. But the increase of consumption is very small. We are still giving full effect to the policy laid down by the Minister

Sir Percy Thompson *Q*—Does not the policy of the Minister go further than the policy you just enunciated?

A—The policy was altered in 1921 practically at the dictation of the local Legislative Council and the Government accepted a compromise proposed by the Council and the Minister

Q—And that is restriction of drink regardless of revenue considerations?

A—Yes.

The President *Q*—That is, prohibition is the goal?

A—Yes, and as the means towards it we were to use the old methods more intensively

Dr. Hyder. *Q*—Is the illicit distillation greater and greater as you force up the rates?

A—Yes

Q—And you cannot control it?

A—It is impossible to control, there never was a complete control

The President *Q*—You are aware, I think, of the statement which we have sent regarding the illicit distillation all over India. It does show a large advance in illicit distillation.

A.—But I think that the actual figures for this province are not quite correct.

Q—You have been extending your distillery areas?

A.—Yes.

Q—Can you have the figures which we have sent tested and corrected?

A.—Yes, I will do my best

Q.—It was thought a good many years ago that it was practically impossible to introduce the distillery system into a very large area; but now you have got it introduced?

A—Yes

Q—Is the staff adequate to control illicit distillation?

A—We take police assistance very freely The actual excise staff is small and could not possibly tackle all the illicit distillation. But generally it is very easy to control and in so far as there is apprehension of violence, the police are ready with their assistance The people are generally very mild.

Q—Are there no cases of violence?

A—We have cases of that sort undoubtedly, but not at all widespread; there has been some trouble in Khandesh.

Q—We have heard in the Punjab that 50 cases of illicit distillation were once found in one village

A—We have also some such cases here They occur especially in our hilly districts during the festivals But it does not indicate any general breakdown of control In one hill district in which I served, the licit consumption went up very remarkably and at the same time we were having a very large number of illicit distillation cases

Q—Have you sufficient staff to satisfy yourselves that no such thing now goes on during festival seasons?

A—I am afraid that illicit distillation is a permanent feature of some of the hilly districts, and the methods of illicit distillation are so extraordinarily easy that we can never hope to stamp it out entirely We treat illicit distillation in these areas in a somewhat special way We do not imprison a man for illicit distillation but simply fine him We have never tried to take drastic action for putting it down in the hill districts.

Q—As long as he can pay his fine out of the profits of the sale, he will continue to do so

A.—That would be so if it is done on business lines; but as a matter of fact, the great majority of cases are done merely for domestic consumption

Q—But don't you find big distillery centres in jungle areas where the jungle tribes and others easily resort to illicit distillation?

A—No, I have not heard of any organised illicit distillation.

Q—In reply to Q. 63, you say that 'In western countries alcohol is the only intoxicant which presents a serious social problem'.

A—That was my impression from what I know of England.

Q.—You want to restrict the use of drugs to medicinal purposes. Is there any medicinal use for *ganja*?

A.—Very little

Q—So you prohibit *ganja*?

A—I think that is the ideal. *Ganja* in this province is almost exclusively used as an intoxicant.

Q—Have you seen much intoxication from it?

A.—No.

Q.—Have you any evidence of any evil resulting from it?

A.—No

Q—Do you think there is anything in the suggestion that the stopping of these things will improve the physique of the people and increase their productive capacity, thus causing a large revenue from income-tax and other sources to make up your loss in excise?

A.—Not for the community as a whole. I do not think that the problem of intoxication is acute enough in this province to have noticeable effect on the physique or earning capacity of the people.

Dr. Paranjpye. *Q*—Have you particularly observed the mill workers in Nagpur?

A.—I believe they take a good deal of liquor

Q—Is their efficiency decreased by their drinking habits?

A.—You can argue both ways After a day's hard work the man is probably better for a mild dose, while any excess might do much harm

Q—Would it not be much better if they spent this amount which they spend on liquor, on food and other necessaries?

A.—I think so But I think that wages are pretty high here and that they can drink in moderation and get their food and necessaries as well.

Dr. Hyder *Q*—Do these things lead to crime in your province?

A—I understand that there are only a few cases where you can prove that crime is due to intoxicating liquor, because the number of people who take liquor is so relatively unimportant

Dr. Paranjpye. *Q*—Is it a fact that those classes of Indians who take to drinking are generally more susceptible to intoxication than those in Europe?

A.—That is a very difficult question to answer. I can only say, as I said in my note, that they do drink very strong liquor and I understand that they drink with little idea of enjoying the drink as a drink

Dr Hyder. *Q*—Just to stupefy themselves?

A.—That is too strong; but it may be to get a pleasant feeling

Dr Paranjpye *Q*—But don't you think that the labouring man here in India takes drink because he likes it?

A—Yes; he likes it But I am informed on good authority that it comes under a somewhat different category In western countries they drink largely for the taste of the drink In India they drink primarily for some effect upon the brain.

Q.—Is whisky drunk for the taste?

A—In many cases it is so I like the taste of whisky

Q.—Not for the exhilaration that it gives you?

A—No, not for the exhilaration.

Q—Is an Indian keen about the kind of drink that he takes?

A.—I have been told that Indians in some cases prefer the old outstill liquor, which was very noxious but to them more palatable

Q—Does not that show that they have a particular taste for the particular drink?

A.—Yes But I think they only like strong liquor

Dr Hyder. *Q.*—I understand there was a committee appointed in the Central Provinces and I think one Deputy Commissioner or the Excise Commissioner placed four kinds of liquor before the people, who were Gonds and others, and found that they prefer strong liquor combined with *gur* though the smell may be very noxious

A—Even an Indian cannot neglect the taste, he must notice it, but I think their primary object in drinking is to get the physical effect.

The President. *Q*—You say that taxation on all forms of alcohol has, therefore, been raised to the highest point possible. The taxation on drugs has also been raised substantially in the past but is, in your opinion, susceptible of a much greater increase if the duties in other provinces are co-ordinated and if measures are taken to curtail smuggling from the Central India States. Do you think the taxation on drugs is susceptible of increase? Can you tell us what is the cost of an effective dose of opium or *ganja*?

A.—I should say of opium, that an effective dose is about one-eighth of a tola.

Q.—That is about a rupee, is it not?

A.—No A tola of opium is worth about Re 1 to Rs 3 It depends on the amount which a man purchases.

Q.—Is it not Rs 75 or so a seer—I mean the issue rate?

A.—Yes But the retail rates vary from one to three rupees so that one eighth will cost him from 2 to 6 annas.

Q.—Can the average man afford that?

A.—I think the average man affords far more in the case of alcohol

Q.—Comparatively do you think that three annas worth of opium is a cheaper intoxication than alcohol?

A.—I should certainly think so.

Q.—What about *ganja* then?

A.—It is cheaper still than opium

Q.—Do you think a man can get full intoxication either with opium or *ganja*?

A.—Yes That is the trouble.

Q.—What do you think is the cost for a man to get drunk on alcohol?

A.—Well, it depends on the man who takes the drink and the quantity he requires I think ordinarily for a man taking half a bottle it will cost him in the open country from Re 1 to Re 1-8 0

Q.—I have heard it said twenty years ago that it cost about 14 annas a bottle

A.—I do not know about twenty years ago, but I was a Deputy Commissioner in the year 1919 in Nagpur when the rate was 14 annas for a whole bottle which now costs Rs 2

Q.—Would you raise the cost of an effective dose of opium or *ganja* to the same scale as liquor?

A.—I was thinking of making more revenue when I spoke of raising the duty on intoxicating drugs I was not referring to the question from the point of view that the majority of people consume to get intoxicated But the ordinary consumer who buys to get a stimulant from drugs without being intoxicated pays very much less He need only buy a one anna pill of opium In that case you could raise the taxation without any serious hardship or break-down of control

Q.—One anna a pill will be 1/48 of a tola, is it not? It will be very small?

A.—Yes

Q.—You say that you cannot level up rates of duty on intoxicating liquor. You say that the application of a uniform rate, as in other countries, would be utterly impracticable?

A.—I think so, it is absolutely impossible

Q.—Do you think it is as impossible in Berar as in the plateau districts?

A.—It is uniform in the open cotton tract because the conditions are similar. Then you get the Chanda district close by, which is largely inhabited by Gonds and where the retail prices go down to 4 or 5 annas a bottle

Q.—Was Chanda one of the districts where you tried the maximum price?

A.—Yes

Q.—Is it effective?

A.—To some extent it is We do not get very much illicit distillation

Q.—The object of maximum price is to prevent illicit distillation?

A.—Yes We have maximum prices for large areas.

Q.—Can you enforce it considering the economic position?

A.—If the duty rate is not so high as to be unsuitable to the licensee we can control retail prices.

Q.—Do you think the price and figure given by the shop-keeper as the maximum return is fairly observed?

A.—I think the maximum rate is fairly well observed That is the information I have got The maximum rate is after all artificial because there is always dilution and short measure Whether it is more worth while for the shop keeper to charge more than the maximum rate or to pour in more water one cannot say.

Q.—Did you at one time have the fixed fee system instead of the auction system?

A.—Yes.

Q.—What was the result?

A.—The result was a tremendous loss of revenue.

Q.—How was it worked out?

A.—I was not in the department at that time As far as I remember we simply calculated a fair rate on the previous three years consumption and gave the shop over to the old contractor saying "we have fixed the license fee at this figure, will you take it" which he invariably did The contractors made an enormous amount of profit, with the result that the Government lost tremendously

Q.—You confirmed the license in favour of the last year's vendor, although some of them may not have been vendors for previous years?

A.—Yes

Q.—Did it lead to much corruption of the staff?

A.—I think it did It was not in force for a long time I think it was the Bombay Presidency which tried this system first and we copied it But when we found that they were losing heavily, we got wise from their experience. It is the Bengal system which is now so popular, under which you have a sliding scale according to the amount which the licensed vendors sell As the sales get larger, the rate of fee is increased

Q.—This is a passage from the order on the report of the United Provinces Excise Committee "The forward path of Indian Excise administration is strewn with the wreckage of monopolies it is time that this (the auction) system which is the last and most evil of all the monopolies should go". Does your experience confirm this statement?

A.—In bare theory the fixed fee system, as the Indian Excise Committee said, is very much to be preferred But we find from practical experience in this province that in actual working no other system can compare with the auction system

Q.—You say that the representatives of the Swaraj party have openly advocated illicit distillation Have you got any specific instances to quote in support of your statement? Have you cited these instances in your administration reports?

A.—I do not think we have made a reference to these instances in our administration reports, but we have had numerous cases which came before the courts in which the accused pleaded that they had been told by the Swarajists that private distillation was permitted I have also seen the reports of the speeches made by Swarajists to the effect that, as *mahua* belongs to the people, they have every right to get liquor from it free They have generally tried to bring the authority of Government into contempt This teaching has been widespread both in different parts of this province and also in Bihar and Orissa Therefore, it looked to me as if this was a deliberate part of their propaganda

Dr Paranjpye *Q*.—In the backward parts where the illicit distillation is more rife, do you think that the Swaraj party has got any strong hold?

A.—Oh yes That is their stronghold Most of the people there are uneducated The Swarajists have only to tell them, as they did at one time, that we employ sweepers and mahars in our distilleries, that people who touch our liquor will be defiled as Government puts urine and excreta in the liquor, and of course ignorant consumers refuse to touch the liquor

Q.—You say that the freedom of transport at present given to imported liquors should be done away with and duty should be assessed in the province of consumption What are the difficulties due to the freedom of transport of foreign liquor?

A.—Foreign liquor undersells our country spirit The imported German rum and Java rum is sold at a lower rate than country spirit.

Q—Because your country spirit pays Rs 20 duty *plus* a heavy license duty?

A—Yes Moreover we have had trouble because of the vested interests of the foreign liquor shop licensees whose fees were assessed at very low rates. The maximum fee till lately was only Rs 1,200 a year. Any attempt to disturb their vested interests created tremendous opposition In Berar I managed to get the Government to agree to give the foreign liquor licensees three years' time, at the end of which their vested interests would disappear. We have now completed the three years and we have just auctioned the foreign liquor shops in Berar this year for the first time The license fees have gone up by 80 or 100 per cent

Q—Is it likely to remove the trouble?

A—No, Sir We are weakening the strength of country spirit as a temperance measure We have already gone down from 60 to 65 u p as the standard drink for the whole of Berar Now foreign liquor is 25 u p. in the case of whisky or brandy and 30 u p in the case of gin.

Q—It is lower now?

A—It may be, the standard rate now in the case of whisky is 25 u p and 30 u p for gin In any case the foreign liquor competes with the country made spirits because it is very much stronger.

The President *Q*—Is it not possible to close down all the shops of foreign liquor?

A—That is the reform I am now recommending I want to close down as many foreign liquor shops as I can

Q—About the difficulties of freedom of transport for the imported liquor, you don't mean that to get a bottle of whisky, people should get a pass from you?

A.—I am afraid that I have worked out my answers in this connection only in reply to the questions in the questionnaire In my opinion in this province, it would be best to have a duty imposed by the Local Government on all foreign liquor consumed within its borders subject to the proviso already mentioned that this duty rate must not be less than the Customs tariff

Q—You mean for imported liquor?

A—Yes

Q—Have you got any foreign liquor shops in poor tracts and villages?

A—No, we have no foreign liquor shops in poor tracts but only in the towns

Q—Do you think it would simplify matters if it were made an imperial receipt?

A—Our difficulty would be still the competition between country spirit and foreign liquor. If the duty on foreign liquor is kept at say Rs 21-14-0, it is impossible to raise the country spirit duty beyond Rs 20 One solution will be for us to prohibit the sale of imported liquor The Excise Commissioner has got power to prohibit a man selling imported foreign liquor

Q—Is not that policy of restricting foreign liquor sales pursued generally all over India?

A.—I think it is Licenses are decreasing very rapidly.

Q—If you want further check, you can raise the minimum quantity to be removed?

A—Yes, but still the temptation for foreign liquor is so great that I think it would probably compete with the country spirit My own quarrel with foreign liquor is that it is getting in the way of our present policy with regard to country spirit. The consumption is going up very rapidly. Even in spite of auctioning the licenses it is going up. The contractor with a high license fee has got a stronger inducement to push up sales

Q—You say *bhang* is a mild intoxicant Is it not fairly strong?

A.—As I understand it, it is mild But I do not know much about it. So far as I know it is only taken by men of good position amongst Indians, mixed with milk and taken as a sort of cooling draught during hot weather. It is very unimportant in this province.

Q.—What about the Ahmednagar *ganja*?

A.—It is much stronger than ours.

Q.—It comes in within the limit of possession Have you reduced your limit of possession?

A.—Yes We have reduced it to one tola.

Q.—You can practically prohibit it?

A.—I am trying to prohibit its import in certain border areas.

Q.—Then again you say that if the Central Government were to arbitrate in difficulties of this kind, a settlement of them might well be found which is hardly at present attainable. What do you say about the Government monopoly over opium? What would you say to the Central Government retaining a complete monopoly in the case of opium, i.e., making up pills at the factory and selling them through an official vendor or at the dispensaries, etc.?

A.—I think here again we come up against the trouble of control

Q.—At present you may have smuggled opium mixed with licit opium. Instead of that if a vendor receives bottles of tabloids and proceeds to sell these bottles at fixed rates, would it not be better?

A.—I think there must be some trouble even then At least in this province I cannot imagine a vendor who would not make an illicit profit even out of this arrangement

Q.—What do you think of the Burma plan of selling through official vendors?

A.—But our difficulty is that we cannot have sufficient number of men—I mean a good class of people It is an ideal, not a practical scheme

The President Q.—Are not the hands of the Government of India likely to be forced by the Opium Convention?

A.—They will never touch opium in India

Q.—You have got it in Burma and in Assam?

A.—In Burma, they have a religious feeling against opium, just as we have in India against liquor The prohibition of opium for the Burman is justified, I understand, on religious grounds

Q.—I do not think so.

A.—I have read that in an opium report.

Q.—The sole justification is that the Burmans by race are so liable to succumb to the effect of these things

A.—I see from a report here that Sir Alexander Mackenzie stated that religion in Burma specifically denounced the use of opium and its use was regarded as a heinous offence Hence there was justification for special action prohibiting its use

Q.—That was in 1897 or thereabouts, about 30 years ago So far as religion is concerned, the smuggling went on increasing.

A.—Still it does seem to show that the opium problem here is not in any case comparable to the Burma case.

Q.—Was it not because consumers did not buy for medicinal use that sales were restricted to official vendors?

A.—I am not clear as to whether the scheme for opium tabloids is regarded merely as an administrative measure, or as a part of a policy of restriction for the consumer I am not clear from which point of view to look at it, as a matter of organization for the Department or justification for great restriction as a matter of restriction for the consumer I do not think there is much

A—Foreign liquor undersells our country spirit The imported German rum and Java rum is sold at a lower rate than country spirit

Q—Because your country spirit pays Rs. 20 duty *plus* a heavy license duty?

A—Yes. Moreover we have had trouble because of the vested interests of the foreign liquor shop licensees whose fees were assessed at very low rates The maximum fee till lately was only Rs. 1,200 a year Any attempt to disturb their vested interests created tremendous opposition In Berar I managed to get the Government to agree to give the foreign liquor licensees three years' time, at the end of which their vested interests would disappear. We have now completed the three years and we have just auctioned the foreign liquor shops in Berar this year for the first time The license fees have gone up by 80 or 100 per cent

Q—Is it likely to remove the trouble?

A—No, Sir We are weakening the strength of country spirit as a temperance measure We have already gone down from 60 to 65 u p as the standard drink for the whole of Berar Now foreign liquor is 25 u p. in the case of whisky or brandy and 30 u p. in the case of gin

Q—It is lower now?

A—It may be, the standard rate now in the case of whisky is 25 u p. and 30 u p for gin In any case the foreign liquor competes with the country made spirits because it is very much stronger

The President *Q*.—Is it not possible to close down all the shops of foreign liquor?

A.—That is the reform I am now recommending. I want to close down as many foreign liquor shops as I can

Q—About the difficulties of freedom of transport for the imported liquor, you don't mean that to get a bottle of whisky, people should get a pass from you?

A—I am afraid that I have worked out my answers in this connection only in reply to the questions in the questionnaire In my opinion in this province, it would be best to have a duty imposed by the Local Government on all foreign liquor consumed within its borders subject to the proviso already mentioned that this duty rate must not be less than the Customs tariff

Q—You mean for imported liquor?

A—Yes

Q—Have you got any foreign liquor shops in poor tracts and villages?

A—No, we have no foreign liquor shops in poor tracts but only in the towns.

Q—Do you think it would simplify matters if it were made an imperial receipt?

A—Our difficulty would be still the competition between country spirit and foreign liquor If the duty on foreign liquor is kept at say Rs 21-14-0, it is impossible to raise the country spirit duty beyond Rs. 20 One solution will be for us to prohibit the sale of imported liquor The Excise Commissioner has got power to prohibit a man selling imported foreign liquor.

Q—Is not that policy of restricting foreign liquor sales pursued generally all over India?

A.—I think it is. Licenses are decreasing very rapidly

Q—If you want further check, you can raise the minimum quantity to be removed?

A—Yes, but still the temptation for foreign liquor is so great that I think it would probably compete with the country spirit My own quarrel with foreign liquor is that it is getting in the way of our present policy with regard to country spirit. The consumption is going up very rapidly. Even in spite of auctioning the licenses it is going up. The contractor with a high license fee has got a stronger inducement to push up sales

Q.—You say *bhang* is a mild intoxicant Is it not fairly strong?

Q.—If your stuff is pretty old, won't that account for the preference for the Bombay *ganja*?

A.—It is not old everywhere, we renew the supply continually.

Q—The old stuff is first sold.

A.—Yes But the stock will not last for more than a few months In view of the encroachment of Bombay *ganja*, we have had to grow a special brand of our own and issue it at the border shops.

Q—You still have trouble about wastage and cleaning?

A—Yes, in the godown

Q—Does not that go on in the warehouses and shops also?

A—We sell it in sealed bags and hand it over to the contractors in sealed bags

Q—As a Government monopoly?

A.—Yes.

Q—Do you finance the cultivator?

A—Yes, we enter into contracts with him.

Q—You have got rid of the middlemen?

A—Yes.

Q—The smuggling of opium is a very serious matter. Does it not hurt you?

A—The smuggling of opium on a large scale does not hurt us at all because it is a through traffic Prices here are not high enough to attract the expert smuggler.

Q—Have you any record of the operations of a Burma Police officer who was deputed in 1911 to co-ordinate preventive measures against opium smuggling?

A—I saw those papers in connection with a report I made on opium smuggling in the provinces

Q—Could you let us have a copy of that report?

A—Yes

Q—What was the result of your enquiries?

A—The fall in consumption was found to be almost entirely due to the increase in price

Q—You search trains on the frontier?

A.—No; we are rather weak in that respect The Excise staff has no exclusive railway charges They have territorial charges only We have no railway Excise staff

Q—Don't you need one?

A—We do not I urged Government to put the opium smuggling operations in charge of the Railway Police, but they demurred to making them primarily responsible, though I thought it was the right thing to do

Q—Have not most provinces got their own railway staff?

A—I have not heard of it, we have not got it in this province

Q—Would you advocate the employment of an officer to fulfil the same functions as the Burma officer fulfilled?

A—He merely wrote a report as far as I recollect

Q—The original intention was that he should co ordinate the duties of all the local Excise C I D Bureaus

A—It was on his report, I think, that we started an Excise Bureau No Bureau existed before that I do not know if he was meant to be a permanent part of the system

Q—A permanent Excise Railway staff would have to be paid by the Government of India?

A—Our Local Government would not be directly interested. The police objected to helping in regard to opium smuggling, because they said it was not directly a matter of provincial concern. But that view was not accepted by the Local Government and was rightly rejected

Q—You don't know how far cultivation still goes on in Central India?

A—I have no information at all beyond the reports we see in the Excise Bureau gazettes.

Q—They are restricting very largely, aren't they?

A—I imagine it is all under some sort of nominal control, but in actual operation, the control is not very effective.

Q—Would you like to see it all stopped?

A.—Of course. We have a lot of border smuggling which I am fighting to stop We cannot open any opium or *ganja* shops on the Central India border, because nobody will ever come to them They get their opium from the States

Dr Hyder *Q*—Can't you come to an agreement with the Indian States?

A—I suggested that we should follow the example of the United Provinces who prohibited the import of drugs altogether from the Central India States, and I got a very indignant reply that this was a reflection on their attempts to co operate My proposal was rejected by the Local Government, but I am going to press for it again.

The President. *Q*—Can you absolutely prohibit import, are not your powers limited?

A—We can prohibit import if it has not paid the duty assessed on opium in this province and we have prohibited import in the case of liquor. One tola is the maximum limit of possession in the C P

Q—Why do you vary the rates for opium in different districts?

A.—This was only a temporary arrangement We have our auctions in November and the Government of India's orders regarding an enhancement of the cost price of opium were received in 1922 after our auctions had taken place in 7 districts In these 7 districts no change was possible. But in others the issue price was raised We have now got absolutely uniform rates.

Q—You say Government are going to answer the questions about stamps

A—Yes

Q—As Superintendent you have nothing to do with that?

A—I have only to do with the administrative side The inspection of the vendors' work is done by the Excise staff

Q—You appoint vendors?

A.—The vendors are appointed by the Deputy Commissioner in the case of court fee stamps and by the Collector or Sub-Divisional Officer in the case of general stamps

Q.—What commission do they get?

A.—I do not know.

Sir Percy Thompson *Q*—Do you recognize a stamp which has been bought in any other province?

A.—Yes. We only do a very small amount of embossing on cheques; such embossing as is done is done in my office

Q—Is not that unfair?

A.—Yes, we lose revenue on that

Q—The stamps are bought in the province where the headquarters of the Bank is situated?

A.—Yes.

Q.—So Bombay and Calcutta get the receipts from the Central Provinces and the United Provinces?

A.—We get a mere fraction of the stamp duty on cheques.

Q—And you acquiesce in that position?

A.—We have acquiesced so far.

Q—As long as it was an Imperial receipt, it did not matter, but when the duty on cheques has definitely been handed over to the province, your receipts cannot approach to anything like the receipts of a province like Bombay or Bengal?

A.—That is so

The President. *Q*—Does not the same thing happen in regard to bonds, agreements and so forth? If a company operating here is managed in Bombay, do you get the duty?

A.—The Courts receive duly stamped bonds, they do not mind where the duty is paid, so long as the documents are adequately stamped.

Dr. Paranjpye. *Q.*—According to the law of the province?

A.—Yes

Q—If the rates were different in different provinces?

A—They will then no doubt object.

The President *Q*—They will make them add the additional duty?

A.—Yes

Sir Percy Thompson *Q*—You have some provision for that in your Act?

A—Yes

The President. *Q*—You do not allow a vendor to give a commission? He must sell for the full price, is not that a condition with you?

A.—He gets his percentage from Government and must sell for the full price.

Q—You appoint a salaried man?

A—The feeling in this province is against official vendors, and so we have done all we could to get non-official vendors

Q—I do not mean by 'salaried man', that you allow a tahsildar to sell stamps You appoint a man, say, on Rs 30 or Rs 40 and say that is enough for him.

A—We have never done that

Q—Don't you think some make very big commission?

A—Perhaps some do, but I do not think that the profits from the business are very large as a rule

Q—It is only in places where there are High Courts that they make large profits? What is your system for stamping certified copies?

A—The system was changed 3 or 4 years ago. Instead of having impressed stamps, they buy court-fee stamps and affix them on plain paper

Q—You did have the impressed stamps, but abolished them.

A.—Yes

Q— Why?

A.—I don't know why it was done

Q—Have you to buy the stamps for the copies?

A.—I think one has to produce his own paper and to pay the fees in court-fee stamps, in addition to the charge for copying.

Q—Don't you find you are losing money on this system?

A—I do not know if it has ever been worked out.

Dr Paranjpye. Q—Are the copyists regular Government servants?

A.—It depends on the pressure of work; they have what they call Section-writers.

Q—They are paid monthly?

A.—Yes.

Q—It is possible that the stamps collected may not cover the cost of the service?

A—I do not think it has been worked out, I have no information

Q—As regards salt, you said you would make some enquiries for us. The position, as we understand it, is that in Jubbulpore you get salt from Sambhar and in Nagpur you get it from Bombay. Could you kindly let us have the class of salt on sale in the bazar in Jubbulpore, Raipur, and Nagpur, what the rate per seer is and whether it is sold by weight or measure Here we get the competition from three different sources We want to know on what terms they compete and whether there is a large addition on account of the middleman's profit.

A—I will find out I only know that at one time there was great difficulty over transport on account of shortage of wagons and they had to get passes for salt in the Betul district, the salt came from Sambhar.

The President. Q—You have a tree tax working?

A—Yes.

Q—Is it working all right?

A.—Excellently.

Q—You number all the trees?

A—Yes.

Q—Your rate is Rs 3?

A—It is now Rs 4 in the Central Provinces and Rs 5 in Berar.

Q—What does the malguzar charge?

A—It depends on the tree I have heard of cases in which the malguzar charges Rs 4 a tree.

Q—You have no control over them?

A—None whatever. I am having some difficulty even with Government trees, because the Land Revenue Department have started charging Re 1 as tree tax and the Forest Department, Rs 3 On the Madras principle, we ought to have a limit for the ordinary use of the tree and not let other Departments encroach on our excise revenue Our trees are not good trees, we cannot get very high assessments for them and it is absurd that there should be two Departments competing for the tree-tax

Q—It is not only small private owners who are putting up the rates. Can you tell us, whether when the malguzar charges Rs 4 a tree, it is taken into account in his rent?

A—His *siwai* or miscellaneous income will include these It will be very difficult to prove that he has included them and the actual proportion of the assessment will be very low.

Q—So that your tree-tax is a free gift to the malguzar?

A.—It is not a free gift, because Government will take it into consideration in assessment. But it will not be a heavy charge Our excise revenue is greater than the land revenue in several districts. In Nagpur we get much more out of excise than from land revenue.

Q—In spite of your strong temperance policy?

A—Because of our strong temperance policy.

Khan WALI MUHAMMAD Sahib, B.A., Commissioner of Income-tax, Central Provinces and Berar, was next examined.

Written memorandum of Khan Wali Muhammad Sahib.

Q. 37—Income-tax being a direct tax is always resented by the public This is the case even now and it will be more so when the rates are raised In the event of a substitute being, however, required for other taxation that is abolished, it will become absolutely necessary to increase the revenue under this head Rise in rates of income-tax would bring in more revenue It would be a sound policy to *increase these rates in the case of* those persons only who would be benefited by the abolition of a particular tax But since income from all sources is now taken into consideration at the time of taxation it would not be possible without lot of enquiries to distinguish income derived from one source from that derived from another source and to levy tax at a higher rate in one than in the other and it would also be of doubtful expediency I am therefore of opinion that if it becomes necessary to raise more revenue from this head all incomes should be taxed at equal rates irrespective of the sources from which they are derived

The raising of rates of income-tax would depend upon the amount of extra revenue required My impression is that inasmuch as the income tax rates are not fixed by the Income-tax Act itself but are dependent upon the rates given in the Finance Act of the Government of India these rates are fixed with reference to the requirements of a particular year If therefore one could have an idea of the increase in revenue desired, one could propose higher rates of taxation in the light of that information As the question is very general I cannot help dealing with it as such

It may be observed at the outset that fluctuations in the revenue from this head (and sometimes marked fluctuations) must always be expected, as the tax is dependent upon trade conditions of the year Owing to the high profits during the war time, the revenue from income tax has shown some good results, but as the war boom days are gradually disappearing and the country is returning to its normal conditions, the figures of revenue which have been arrived at during the last three years cannot be expected Revenue has already begun to show a downward tendency not only in this but also in some other provinces of India Hence though an increase in the rates of income-tax be suggested at present it would be always liable to modifications later on according to the requirements of the year

When income-tax has to be increased as a substitute for some other tax, it means that a substantial increase in the tax is desired It is very much doubted if such an increase can be expected in a province like this without substantially increasing the rates of taxation and without lowering the minimum taxable limit and bringing in to be taxed some other incomes exempt up till now I have already observed above that it is not possible to distinguish between classes of income that should be brought to bear this additional burden In fact all incomes that are not taxed at all should be taxed to income tax For reasons given in replies to other questions I beg to think that to raise more revenue from this head it would be worth while to reduce the limit of taxable income to Rs 1,000 and to include the income from proprietary profits in the category of taxable incomes and to enhance the rates of taxation applicable to the different grades of income and thus raise more funds Attached is a statement showing the total incomes according to the figures of 1923-24, the income-tax derived from them at the rates proposed and the increase in the revenue expected This rise in rates would give about 36 6 per cent more as income-tax The figures of 1923 24 were much inflated for various reasons Ordinarily the revenue from income tax should be put at 35 lakhs and increase at 36 6 per cent would bring in about 12 75 lakhs more

There are not many super tax assessees in this province. The greater portion of this tax is paid by only five assessees and their incomes too fluctuate much. But in other provinces increase in lower rates would give substantial results

I am not in possession of facts and figures to estimate the increase in revenue by taxing proprietary profits. But I expect a substantial increase on this account.

Q 34.—The graduation scheme seems based on the principle that a man who has superabundance of wealth should relatively speaking give to the State a little more out of his earnings than his less fortunate brother. It seems to exclude the rich from getting the advantage of favourable or low rates of taxation meant for those who are not well off. Strictly speaking this principle would imply that the greater the number of graduation the more equitably distributed would the burden be to the tax-payer It would be very difficult to work this theory in practice For practical purposes, therefore, the present scheme of graduation seems satisfactory and I do not think it necessary to base it on English or Continental practice

Q 35.—It stands to reason that a man who earns his income with the sweat of his brow should not be taxed to the same extent as his brother who has wealth at his command and earns income without personal exertion It is therefore that the question of differentiation between earned and unearned incomes for the purposes of income-tax has been discussed in many treatises on the subject. It is assumed that with the progress of time a more refined method of discrimination will be attained and the classes of incomes, to discriminate one from the other, will be more numerous than at present The question is whether time to make this differentiation is come in India Though income-tax in India has been existing from 1860 with some breaks, it assumed a more definite shape in 1886 and is now worked on sound principles from 1918 It may thus be argued that it is yet too early to make this differentiation But for the growth and progress of industry in India which seems most necessary, such a step seems desirable I am, therefore, of opinion that steps should be taken to differentiate between earned and unearned or lazy incomes In making such a differentiation, conditions obtaining in India will have to be specially looked into Steps will also have to be taken that this principle does not degenerate into any abuse

Q 36.—I do not think it is practicable, without proceedings of a very inquisitorial nature, to make allowance for the number of persons supported out of the particular incomes in India It is within the knowledge of everybody that in India a man who may belong to the Hindu or Muhammadan persuasion has got more dependants than perhaps in other countries in the world It seems a well-established custom among the old residents of India to support not only their family members but also other and distant relations It is sometimes observed that with the increase of income demands of dependants and relations increase Some of these relations or dependants are such that a man would not like to mention because of their being looked down upon owing to social customs and manners I am therefore of opinion that it would be better to nominate the taxable minimum than to make allowance for persons supported out of a particular income.

Q. 37.—No answer.

Q 38.—In answering this question I beg to first observe that to me it seems that the definition of the phrase "agricultural income" under section 2 (1) of the Indian Income-tax Act, 1922, requires a little modification according to my ideas From this phrase I understand the income which is derived by actual cultivation or tilling of the land. It should therefore be distinguished from the income of a proprietor If the principle, of one income being not taxed twice over, were to be applied in this case too, I am of opinion that the income derived from actually cultivating the land should not be taxed because the agriculturist or rather I should say the cultivator of the land pays a certain portion of his income to the State as rent, but I do not understand as to how rent, which comes into the hands of a proprietor and a part of which he keeps himself and the other part he pays to the State, can be called the income from agriculture In the Central Provinces these rents are collected by the proprietors from their tenants (actual cultivators of the land) Malguzars, according to the terms of the settlement, keep a certain portion of them for themselves (it is generally 50 per cent) and pay the remainder to the Government as revenue. The remaining portion of rents does come to them as their income not derived from agriculture but derived from their being malguzars, *i e*, having invested some money in the villages. I do not see why for purposes of income tax this investment should be distinguished from other investments the incomes of which

are taxable. If a man invests in house property, non-income-tax-free Government securities, shares of companies, etc, and makes income on that, his income is taxed If the same money comes to be invested in villages its income is not taxed I do not know how this is considered equitable It seems presumed that the rent which the tenants pay and the *siwai* incomes which the malguzar makes in his village, are his incomes and out of these the malguzar pays 50 per cent to Government and therefore the assets of a village are already taxed and no income tax should be levied on the assets left in the hands of the malguzar To me this seems a wrong argument The rents collected by the malguzar or other *siwai* incomes derived from the village are the property of the State and the malguzar is not in the least entitled to them On account of his having invested in the village he is left a certain portion of this by way of drawback or commission on the collections This commission or drawback should be as much liable to income-tax as other income of similar nature I am therefore of opinion that the income derived by actually cultivating the land should not be taxed to income tax as a portion of it is already taken in the shape of rent by the State, but the income of a malguzar or landlord derived from his village called "Proprietor's profits", should be taxed In taxing the landlord I would not distinguish between the absent landlord or the money-lender who becomes the owner through foreclosure or mortgage, and others I have not been able to get the information to say as to what portion of the land-owners actually farm their lands nor does this information become necessary in the face of the reply given by me.

Q 39—For want of necessary information before me I am unable to answer this question, but to me it seems that a substantial increase in revenue on this account should be expected.

Q 40—I do not understand how a payer of land revenue can be compared with the payer of income tax To me it seems that the two persons are quite different in their responsibilities to contribute to the State. The former is liable to pay the revenue to the State for the use of the land, irrespective of the amount realised by him as rents; whereas the latter contributes to the State only on his ability to pay the tax Hence in the latter case only, the question of exemption arises In 1919 when the exemption limit was raised from Rs 1 000 to Rs 2,000, the chief arguments in its favour were the high prices and high cost of living These conditions do not seem to obtain now to the same extent; and I think that if more revenue is wanted there would be no harm if the exemption limit is reduced to Rs 1,000.

Q. 41—It is to be regretted that the growth of the accountancy profession since the passing of the Indian Companies Act, 1913, has not been much perceptible in this province It seems due more or less to the number of companies in the province being very limited and also to the fact that of the existing companies in the province many have their headquarters in Bombay where their accounts are audited by certified auditors There are only two certified auditors who audit some of the accounts of small companies and individuals in the province Even of these two, one lives in Bombay and comes only when he is specially called by any company He has not been seen so far to audit the accounts of individuals Only one auditor stays in the province and is seen to be going about auditing certain private accounts In some cases the audit by this gentleman has not been found very satisfactory from the income tax point of view Since the companies have, under the law, to present their audited balance sheet to the public the reproach in question cannot be said to apply to them at all But small companies or individuals who are not, under the law required to publish their audited accounts have not been touched by the growth of the accountancy profession in question As has been observed in the annual reports many means are detected as having been devised to evade taxation It is true that by the introduction of a centralised and more efficient system of income tax control, the reproach has to a great extent been removed in some cases due to the fear of the assessees being penalised on concealed incomes and in some cases to the checking of accounts in the income tax office But yet I regret to observe that the reproach is not fully removed nor does it appear to me to be capable of being fully removed, for so long as human nature remains what it is, people would devise means of evading taxation on their incomes if they can help it and no system of control can check this completely because of the limited time during which these accounts, written for the whole year, have to be checked. The reproach has, however, been removed to a very great extent

Q. 42.—It seems to me that it is yet too early to prescribe any standard form of keeping accounts to be maintained by the tax-payers generally, or by any class of them in India Income-tax has been existing in India for only a few decades, whereas in England and France it has been in force for over a century. Besides this, specially in this Province, many of the tax-payers are illiterate, and to these having small incomes such a procedure would mean additional expenditure and trouble It is difficult to find tax-payers of a particular class having incomes only over certain amounts All classes of tax-payers have incomes ranging from the lowest taxable limit to that liable to the highest rate of taxation. Besides this, even the present system of *mahajani* accounts seems to me to be a suitable one, provided the accounts are correctly kept in that system I think the time has not yet come to order the accounts to be kept in any particular standardised form What I would wish is that to avoid duplication of accounts it would be better if, in the Civil Courts only those books are admitted into evidence which, in the case of income-tax payers, have been produced before the Income-tax Officers and examined by them To this end it would perhaps be necessary for the Income tax Officer to put his seal over certain pages of the book produced before him

Q 43—I consider that the publication of particulars of incomes taxed in the newspapers and employment of non-official assessors or commissioners in assessment cases would to a great extent act as a check and tend to reduce frauds upon income-tax in India but there would be a great volume of opposition to these steps being taken Even at present some of the tax payers seem to think that their accounts which should be of a very strictly confidential nature, should not be called to be examined by Income tax Officers An Indian income-tax payer, specially of the trading class, attaches a very great importance to his what he calls "credit". Even though he be incurring losses or making very nominal income he would like to pose that he makes very big amounts of income It is on his credit in the bazar that he is able to raise capital for his business. If his accounts are given publicity and the real state of his business known, it would be difficult for him to maintain his credit in the market It is on this ground that, though the system of making the return has been in existence in India for the last six years, many a tax-payer has evaded making the return or evaded producing the books of accounts before the Income-tax Officers The provisions of section 54 of the Indian Income-tax Act do not seem to remove their doubts in the matter The objections against Advisory Boards summarised by Sir William Meyer in his Council speech, dated the 14th March 1918, still hold good With the lapse of time and change of ideas of the tax-payers as regards their state of business, such an innovation is possible Without it, it is rather difficult to think of steps that could be taken to bring public opinion to bear

Q 44—It does not appear to me to be necessary that any steps should be taken to discourage the issue of the tax-free securities because of the ground

se rate of income-
low . because the
to pay a certain
rally follows that
rich man. There
x-free securities.
called tax-free,
is taken for the
nt in favour of
nd I consider it

Q. 45—I have not sufficient material to consider this question

Q. 46.—In this province there has been only one case of double taxation and very few cases of taxation on income derived from outside India We have therefore not much to do with the provisions of the existing law on the subject and no difficulty in the matter has been experienced. We seem to be satisfied with the present provisions of the law on the subject.

Q 47—One of the chief grievances of the tax-payers in India against the system of assessment has been that the State never took into consideration the losses which they sustained in a particular year, but always taxed their income which they made in its following or the preceding year. The system of taxing three years' average income would therefore be very much welcome by the tax-payers. It will have a more equalising effect on the revenue to the State also;

but it would effect the State revenue to a very great extent and to have an average revenue, the rates of taxation will have to be increased. The three years' average system will also tell heavily on the tax-payer during the years of the decrease of his income when he can least well afford to pay tax on it. Objections of this kind seem to have been taken in England also to this kind of assessment but it had been continued on the sanction of time. If it is introduced in India I think it will be liked by the tax-payers To arrive at average of three years' revenue the rates of taxation will have to be raised. People whose incomes are of fluctuating nature would not mind this. This would however tell upon people with fixed incomes, such as salaried assessees, etc But this cannot be helped

Q 156.—I accept the reasoning that income-tax should be levied at uniform rates and should therefore be centrally administered. Besides its being preventive against the transfer of business from place to place, it gives special facilities to the Central Government for a very efficient control over the administration of the Act in all the provinces It may be argued that if all the Provincial Governments were to be advised to have uniform rates it would be possible to have it locally administered. To me it seems that local influences over the staff would [illegible] ly if it could [illegible] -tax Act has [illegible] its adminis- [illegible] the proceeds [illegible] Up till now the rule has been to give the Provincial Government a share at 3 pies per rupee on the assessed income in excess of the assessed income of the year 1920 21. It worked well; but it seems that when, in a particular year, the assessed income does not exceed the figures of 1920 21 the Local Government would be getting no share in the income-tax realised in the Province though owing to the rise in the rates of taxation the revenue under this head may be more than in 1920-21 If the figures of 1920 21 are for any special reasons to be strictly followed, I would recommend that instead of the assessed income, the figures of actual revenue of 1920 21 should be taken as the standard and the Provincial Governments should be given a share in the excess of the revenue raised under this head The proportion can be ascertained in consultation with the Local Governments

Q. 167—I regret I do not know the conditions of administration that obtained in the United States of America when the observation in question was made; but it appears to me that the same could be said of the Central Provinces and perhaps the whole of India It is not only that the central administration of income-tax results in uniformity in rules, procedure and methods of assessments (which in themselves are a great advantage) but for the discretion of the Income-tax Officer (specially the subordinate officers) to be exercised in an unfettered manner it is most necessary that they should be beyond the influence of the persons whom they have to tax Such cannot be the case if the department is not centrally administered.

Q 171—I beg to refer to my answer given above, *i e*, to question No 167 In the Central Provinces, administration of income-tax was never carried out by authorities subordinate to popular bodies and no experience in the matter has been gained But from the few instances that happened in the province, I am of opinion that it is desirable that the administration of income-tax should be independent of the electorate.

Statement referred to in answer to Question No. 33.

Grades of income	Number of assessees.	Income.	TAX. At the present rate		At proposed rate		Increase	Remarks
			Rate	Tax	Rate	Tax		
1	2	3	4	5	6	7	8	9
		Rs	Pies	Rs	Pies	Rs.	Rs.	
1,000 to 1,999	11,749	1,49,74,550	Nil		4	(a) 3,11,970	3,11,970	Explanatory Note — (a) Taken from the return of 1918-19.
2,000 to 3,499	5,778	1,54,94,024	5	4,03,490	5	4,03,490	Nil	
3,500 to 7,499	3,626	2,05,55,692	5 and 6	5,93,414	6	6,42,366	48,952	Percentage of increase works out to 36 5.
7,500 to 12,499	1,212	1,22,28,749	6 and 9	4,63,479	9	5,73,222	1,09,743	
12,500 to 14,999	237	32 10,433	9	1,50,489	12	2,00,632	50,163	
15,000 to 19,999	242	44,63,989	9	2,09,249	15	3,48,749	1,39,500	
20,000 to 29,999	260	75,44,951	12	4,71,559	18	7,07,339	2,35,780	
30,000 to 39,999	95	31,06,352	13	2,42,684	21	3,39,757	97,073	
40,000 and over	165	2,20,51,249	18	20,67,305	24	27,56,406	6,89,101	
Total	23,364	10,36,29,999	..	46,01,669	...	62,83,950	16,82,281	

Khan Wali Muhammad Sahib gave oral evidence as to laws —

The President. Q—You are the Income-tax Commissioner?

A.—Yes.

Q—How long have you held that office?

A.—This time I have held it for ten months and I was also holding that post last year for two months

Q—Do you belong to the Central Provinces?

A—Yes I have been in the Central Provinces all my life

Sir Percy Thompson Q—In answer to Q 33 you say in the first paragraph of your answer 'I am therefore of opinion that if it becomes necessary to raise more revenue from this head, all incomes should be taxed at equal rates irrespective of the sources from which they are derived' Has it anywhere been suggested that different kinds of income should be taxed at different rates except with regard to earned and unearned incomes? I don't quite see the point there

A.—What I meant was that all incomes should be taxed at the same rates In practice it would be possible to levy different rates on incomes derived from different sources. For instance, in the case of excise, we could levy a tax at higher rates on excise contracts if excise revenue is totally removed

Q—You do not suggest that it should be taxed at a higher rate because it comes out of excise?

A—That was my idea

Q.—Do you mean to say that you could differentiate between two people, one of whom is a tailor and the other a vendor of intoxicating liquors? Do you mean to say that because the vendor of intoxicating liquors pays a big fee for the right to sell the liquor, therefore he should not be subject to income tax?

A—What I say here and what I have written is my personal opinion and it has nothing to do with the department What I meant was this In case the excise tax was abolished, the man who would benefit most by it should be asked to pay the income-tax at higher rates

Q—Do you mean the man who drinks at present?

A—Of course it will naturally fall upon him. But the man who makes income out of excise must be taxed at a higher rate

Q—He is going to lose his income if the excise is abolished

A—Will there be no sale of liquor then?

Q—If you abolish excise there will be free competition, everybody will sell it.

A—Then the man who sells it will be liable to pay the higher rate

Dr Hyder Q—Will it be fair to differentiate between an agriculturist and the seller of intoxicants—between man and man?

A—Because he has been paying some tax and now in lieu of that tax he is asked to pay something more

Sir Percy Thompson Q—The vendor of liquor will pass it on to the consumer, it would be in the price of liquor

A—The income is made by the vendor and he will be liable to be taxed

Q—But I do not see how you can use the argument that because he pays a high vend fee which he passes on to the consumer, he should be taxed at a higher or a lower rate for purposes of income tax

A—That is how I view it

The Maharajadhiraja Bahadur of Burdwan Q—You say 'in the event of a substitute being however required for other taxation that is abolished, it will become absolutely necessary to increase the revenue under this head' I should like to know what you mean exactly by it Suppose certain taxes were abolished Do you mean to say that because they are abolished, therefore income-tax must be increased?

A.—No, not necessarily Perhaps there was a mistake in the typing

Q—At page 227 of your notes you say 'it would be worth while to reduce the limit of taxable income to Rs 1,000' What I would like to know is that,

apart from any question of the Government getting any additional money, is it your view that the present limit of taxable income should be reduced?

A.—That is not my view unless more money is required.

Sir Percy Thompson *Q*—Would you mind just looking at the statement given at the end of your notes? I do not quite understand how you get those figures in respect of incomes between Rs 1,000 and Rs 2,000

A.—These are the figures worked out from the returns of 1918-19.

Q—They may have altered considerably since then

A—They must have. These are only approximate figures

Q—Taking your figures as correct or approximately correct, you notice that the number of persons getting incomes between Rs 1,000 and Rs 1,999 is 12,000 in this province, the number of all other assessees comes to just about 10,000. That means that if you lower the exemption limit to Rs 1,000, you would have to deal with more than the double the number of assessees

A—Yes

Q—And for that, according to your estimate, even at the rate you have proposed, you would have an increase of about 3 lakhs of rupees

A—Yes

Q—Is that worth while?

A—I think so; because we get 3 lakhs as additional revenue and the expenditure will not be very much

Q—What do you think the expenditure will be?

A—It is rather difficult to estimate. At present it is 6 per cent on the total revenue and it might be about 1 per cent more

Q—Would it not mean double the staff?

A—Not necessarily. The subordinate staff may be strengthened a little. The smaller income tax cases do not require much time It is only the larger incomes that take much time because the accounts have to be gone into

Q—You say you are not in possession of facts and figures to estimate the increase in revenue by taxing proprietary profits Can you make any rough guess?

A—My impression is that the total revenue under land revenue in this province is about Rs 2,10 lakhs of which 87 lakhs comes from Berar This revenue in Berar is collected by patels who get commission on the money they collect What is collected by them is paid into the treasury and the patels get 7 per cent as their commission. In the Central Provinces there is what is called the malguzari system and the malguzar gets 50 per cent of his collections from the village Now if we stick to the limit of Rs 1 000 or even Rs. 2,000, many of them would not be assessable so far as the Central Provinces are concerned I think you may get one-third of the total income, *i e*, about 40 lakhs, to tax in the Central Provinces.

Q—You think that one of every three would have incomes over 2,000?

A.—Yes

Q.—They have much by way of other incomes?

A.—Yes.

Q—What are they?

A.—Money and grain lending In the Central Provinces the malguzar advances grain to the people and he realises interest, he also has *siwai*

The President. *Q*—To what extent do you tax his profits from money lending and *siwai*.

A—It depends upon the total income

Q—But how do you tax all his income from money-lending even though it is practically a rent?

A.—It is not rent Rent is quite different from the interest on money-lending.

Sir Percy Thompson. *Q.*—Have you not heard of the system under which a man lends at a low rate of interest and exacts *nazarana*? That interest seems to be almost indistinguishable from rent Now would you tax that interest when it is in the form of interest and not in the form of rent?

A.—Anything other than rent is taxed.

Dr Paranjpye. Q—What about miscellaneous income?

A.—That is taken into account at the time of the settlement. That is not taxed to Income-tax The total assets of the village—*siwai* and income from minerals and fisheries—are taken into account and the total is calculated and a certain percentage is taken by the Government, the rest is left to the malguzar.

Q—Is the forest income treated as agricultural income?

A.—There is no such rule. But there is a specific instruction given by Government that forest income should not be taxed It is different from the agricultural income

The President Q—Grazing fees?

A.—They come under *siwai* incomes They are assessed to land revenue and not income-tax.

Sir Percy Thompson Q—Is it right to say that the part of the *siwai* income which is taken into account for purposes of land revenue is not taken into account for purposes of income-tax?

A—That is a fact. All *siwai* incomes are considered as income for purposes of land revenue There are several kinds of *siwai* The word simply means 'extra'. It has got different meanings in different places When we talk of settlement it has got one meaning and when we talk of interest it has got quite a different meaning

The President Q—Under your arrangement with regard to land revenue, what would be taxable, for instance in Bengal is not taxable in the Central Provinces although the Act and the definition are identically the same

A—I do not know about the Bengal system

Sir Percy Thompson Q—In answer to Q 34, you say 'the present scheme of graduation seems satisfactory and I do not think it necessary to base it on English or Continental practice'. Are there not advantages in the English method of graduation?

A.—I do not know much about the English system I have not given much attention to that system of graduation So I am not able to answer that question

Q—Have you any trouble with regard to incomes on the margin, that is, just at the point where the rate changes?

A—But such difference must come about

Q—They do not occur under the English system

A—I do not know about that

Q—The English system is to exempt to everybody—rich and poor—the first £225 The next £250 is charged at half rates and all the rest is charged at full rates You get a continuity in the rise of rates and you do not have difficulty with marginal income The Indian system as at present, we had in England up to 1920 and then as a result of the recommendations of the Royal Commission, this new system was adopted

A—If it has an advantage over the Indian system, surely the public would like it I have not myself studied it much

Q.—In answer to Q 36 you say you 'do not think it practicable to make allowances for the number of persons supported out of a particular income in India'.

A—I say it will be rather difficult to find out the number of persons that have to be supported out of a particular income in India

Q—Would it be possible to give an allowance for the number of children who are being educated?

A—Yes

Dr Hyder Q—Does not everyone send his children to school without extra expenditure?

A—Yes But this would give relief to the poor people whose incomes are not very high

The President Q—Are there not people who need this relief? Would you extend this privilege to all the income tax payers?

A.—It will be required in the case of poor people but not in the case of super-tax payers But even if it is granted to super-tax payers, it would not be much

Dr Paranjpye *Q*—In reply to question No 36, you talk about the large number of dependants to be supported out of the particular incomes, don't you think that it would be possible for the Income-tax Act to lay down definitely on whose behalf the abatement ought to be given?

A—Yes, we know that there are many people who ought to be supported by a man having an income

Q—Would it not be desirable to discourage the large number of hangers-on on one man's income?

A—Surely it would be desirable, but it will not be practicable.

Sir Percy Thompson *Q*—Supposing a man says he has got nine children, and you suspect he has not got nine children, would it not be difficult to find out?

A—I do not think it is very difficult because I cannot imagine any man telling a lie about the number of his children That would not happen at least in India I do not think any enquiry would be necessary

The President *Q*—Do you mean to say that there is no danger of a bachelor claiming any allowance?

A—I do not think so

Sir Percy Thompson *Q*—Do you think that super-tax on companies is justified?

A—There is as a matter of fact only one company which has got double taxation, in this province

Q—I am not talking of double taxation, but super-tax on companies

A—I regret I can give no opinion, Sir.

Q—You say that the income derived by actually cultivating the land should not be taxed to income-tax, but the income of a malguzar or landlord derived from his village called "proprietor's profits" should be taxed Could you tell us why you draw a distinction between these two? Why would you not make the profits derived from actual cultivation liable to income tax?

A—It is rather difficult to distinguish technically between the two The distinction according to my idea is that the cultivator who cultivates himself has got to do much, while the malguzar has to simply collect his income I have drawn the difference between the man who cultivates and the man who derives the income

Q—How can you draw this distinction? I think even a clerk works and why should he be charged income-tax and not the cultivator?

A.—Technically speaking he is liable, but I think, considering the position of the Central Provinces, it is too much to expect the poor cultivator to pay this income-tax I think it will be supposed that they were never meant to be taxed on their agricultural incomes.

Q—Would it be considered a breach of contract or faith?

A. I think to some extent it would be.

The Maharajadhiraja Bahadur of Burdwan *Q*—I understand from your statement that supposing a landlord or a malguzar, whatever he is called in your part of the country, pays three thousand rupees as land revenue and he actually gets six thousand rupees from his tenants, on the three thousand rupees that he keeps for himself you will have no compunction in putting on income tax, whereas a tenant who pays, say, to the landlord fifty rupees and keeps fifty rupees for himself, you won't put any income-tax on him. Supposing a big tenant or tenure holder has to pay two thousand rupees to the landlord and keeps another two thousand rupees for himself, would you exempt him? Is your argument here that a tenant because he cultivates the land or because he is a direct cultivator, therefore, for the profits that he makes he should not have an income tax But the landlord simply because he does not take the plough in his hand, therefore, the rent that he receives from the tenant and keeps for himself should be taxed again by an income tax?

A.—There is no additional tax, because he does not pay any rent to the Government

Q.—Does he not pay any revenue?

A.—My contention is that the land belongs to the State, and the malguzar is only a middleman for the collection of rents.

Q.—Would you apply the same principle to the zamindars?

A.—I do not think that there are many zamindars in this province; they are very few They are no better than malguzars. I think they only have some concession that the full *jama* is not collected from them

Q.—You would consider that what the zamindar gets from his tenants is a sort of commission for the collection of revenue?

A.—Yes It is only for the collection of money that is Government's due.

Dr Hyder *Q.*—Is it not a fact that in the past Sir Richard Temple and other people who made the settlement, turned these malguzars into full proprietors? Don't you think that it would be going back on that policy?

A.—I do not know what is meant by full proprietors I do not know the conditions under which the proprietary rights were given I think they were given with the simple idea that the rents will be collected by the middlemen Afterwards the villages became saleable I am only telling you what I remember I cannot say definitely about this

The Maharajadhiraja Bahadur of Burduan *Q.*—You say that the actual cultivator should not be taxed in this case Supposing a malguzar has a certain amount of *khudkasht* land, you would exempt him because he is also a direct cultivator?

A.—No He would be exempted from the income-tax only on the income which he makes as a cultivator, but not on the share he gets as a malguzar

Sir Percy Thompson *Q.*—Would you exempt that part of the income which he gets as an ordinary tenant?

A.—Certainly I would still classify him as an ordinary tenant.

Dr Paranjpye *Q.*—Every raiyat is a malguzar if you hold that

Witness—To draw a distinction there should be a demarcation, because a cultivator himself cultivates the land his income should be exempted, whereas that portion of it which he gets as a malguzar should be taxed The two incomes technically speaking are the same But the question is only of differentiation

The Maharajadhiraja Bahadur of Burduan. *Q.*—Supposing there are 1,000 acres and you divide it into 10 bigha shares and all become small malguzars You will at once say, because they are cultivating themselves they must be exempted?

A.—I do accept that there are tenants who cultivate the land and there are also malguzars who cultivate certain portions of their lands When I say that the actual cultivator has to be exempted, I mean to distinguish the cultivator from the money-lending class who purchase villages

The President *Q.*—Have you come across cases where people of the money-lending class purchase villages?

A.—Oh yes, many of them purchase villages In fact the purchasing of lands is considered to be a safer and a better investment

Q.—Is it partly because the income from it is not liable to income-tax?

A.—I don't think that is the reason, but they have an idea that if the money is invested in the banks it might be lost and in the case of villages the value of villages would increase Therefore they get income by two ways, one, in the shape of prices and another in the interest on the capital.

Sir Percy Thompson *Q.*—You say the growth of the accountancy profession has not affected the conditions in the Central Provinces?

A.—Not very much

Q.—Have you any suggestions to make as to any measures which can be taken to improve the administration of the income tax, *i e*, to make collection more close to the liability? You do say at the end of the paragraph, that "so long as human nature remains what it is, people would devise means of evading taxation. Is it because of the short time within which these accounts must be checked?

A.—Yes It is very short time As a matter of fact we are required to serve notices in the month of April and the assessee has to make a return within thirty days He generally takes six months An officer has to deal with at least a thousand assessees

Q.—Cannot something be done to remove these difficulties?

A.—Well this law is an improvement on the old law under which no return had to be made The first law requiring this was the Act of 1918 and therefore people are not fully conversant with the procedure.

Q.—Is anything being done to tighten up the procedure?

A.—Yes, we are gradually doing it We have got to see a thousand accounts nearly and one officer has to do the work in 365 days. It is not possible for him to look into the accounts completely

Q.—Would the position be satisfactory if in fact every man made the return within thirty days?

A.—Then in that case it would be still more difficult

Q.—You mean to say in that case the staff will be insufficient?

A.—Yes, the staff will be insufficient as each account should be completely examined

Q.—But for reasonable examination in sample years, is the staff insufficient even for that?

A.—I think so

Q.—Would it pay to have additional staff?

A.—No, Sir. It will be very expensive

Dr Paranjpye *Q*.—What is your staff?

A.—One Commissioner, 2 Assistant Commissioners and 16 Income-tax Officers. That covers the whole of the Central Provinces and Berar.

Q.—These will have to examine between 11 and 12 thousand assessees?

A.—No There is other set of officers called Examiners who are eight in number Few of our Income tax officers have had training in accounts

Q.—I see from your table that you have got about 11,000 assessees Am I right?

A.—No, those are only persons who have been assessed in the year There may be other persons who have been exempted So you have to deal with many more persons than are given here

Q.—How do you bring in the new people?

A.—For that we have got a survey staff There are 12 Sub-Inspectors, but they are only temporary They do this work

The President *Q*.—What do you do in the case of companies which have got their headquarters in Bombay Do you get any income tax from the Bombay Government?

A.—Yes, Sir. [illegible] y Government But their accour[illegible] s got business in this province [illegible] d in Bombay, but the income [illegible] its in the proportion of 85 to [illegible] 70 and 30

Q.—How are the proportions arrived at?

A.—The proportions are simply arrived at by mutual correspondence and bargaining The Local Government gets one pice in the rupee. We have to ascertain how much it is and this income is divided between the two provinces.

Q.—Is there a recognized system of account keeping?

A.—Yes

Q.—Are all accounts more or less on the same lines?

A.—There are many kinds of system in which the accounts are kept in the Central Provinces The *mahajani* system is a very common one; it is called so, because the *Mahajans* keep it

Q.—There is no officially recognized system?

A.—We cannot force a man to keep his accounts in a particular form.

Dr. Paranjpye. Q.—Are they written in Mahrati or Gujarati?

A.—They are written in all languages, some in Mahrati, some in Gujarati, some in Hindi, some in Urdu and some even in English

Q.—You say that if a man's accounts were given publicity, it will be difficult for him to maintain his credit in the market?

A.—That is the excuse the tax-payers themselves give

Sir Percy Thompson Q.—Don't you think that it would be a very scandalous thing, if when a man has made a loss and it is proved to the satisfaction of the Income tax officer the officer should proclaim it on the market and spoil his credit when he might be a perfectly substantial man?

A.—From the income-tax point of view or from the point of view of the public, the tax payers would not like being exposed

The President Q.—Would it be very difficult for a man to find out his rival's income? How does he pay his tax?

A.—The tax is deposited in the Treasury either in cash or by cheque

Q.—It is all brought into the Treasury books?

A.—Yes.

Q.—Would it be very difficult to find out the income from the Treasury books?

A.—A man can know what the tax paid is, but it will not be known whether he has made any losses

Q.—There is no secrecy about the books in which payments are recorded?

A.—I do not know about the Treasury accounts nobody can get information from income tax book The Treasury accounts might be published and copies might be had

Sir Percy Thompson Q.—You do not object to tax-free securities on the ground that they favour the rich man as against the poor?

A.—There is not much of favouritism there The general contention is that tax-free securities are supposed to be tax-free in every case

Q.—Supposing I am a very wealthy man and my rate of income-tax is 33⅓ per cent, if I take up some tax free securities which are paying interest at 4 per cent, I am really getting a rate of interest equal to 6 per cent, because if it were 6 per cent not free of income tax, I should get 6 per cent and pay 2 per cent to Government The poor man, who pays no income-tax at all, is only getting 4 per cent

A.—Therefore, the poor man would be benefited if tax-free securities are not issued at all If ordinary securities are issued, he will be liable to tax.

Q.—In other words, tax free securities are in a way favouring the rich man as against the poor man, because they give him a higher effective rate of interest?

A.—That is so

Q.—Your answer to Q 47, regarding the losses not being carried forward Would you carry over losses for 3, 4, 5 or 6 years?

A.—That is keeping a kind of account with the assessee, which it will be very difficult to do

Q.—You are more or less keeping an account with the assessee, when you have a three years' average system

A.—But for the purpose of assessment, there should be some unit adopted When we adopt one year, we exclude losses sustained by the man in the previous year If we take two or three years' average, the losses are taken into consideration

Q.—You can do it by the average system, but there are disadvantages with regard to the average system and in point of fact, the system was considered by the Royal Commission on Income tax in England in 1920. They recommended adopting the previous year's basis They went into the question of losses and recommended that you should spread over the losses up to a period of six years.

A.—The assessee, if he gets his losses recognized even once, would be satisfied with it That means that the whole loss would be taken into consideration at one time If you take two years' average, it would be sufficient

The President *Q*.—Do they keep sufficiently accurate accounts to enable you to carry on a system like that?

A.—Some of the tax payers do, those who do big businesses have a sufficient number of books to keep their accounts accurately

Sir Percy Thompson *Q*.—In any case, surely you will only allow the losses to be carried forward if the man has proved the losses in the year in which he was assessed

A.—Yes

Q.—*To get the same revenue on the three years average system why will you* have to raise the rate of taxation? How does it make any difference?

A.—Because, the averages will be lowered on account of the losses being taken into consideration

Dr Paranjpye *Q*.—Is there any difficulty in assigning incomes to various provinces? According to the Meston Settlement, the Central Provinces get a pice in the rupee on all income additionally assessed above the minimum of 1920 21 Do you find any difficulty in assigning a particular income to your province and a particular income to another province when a man has his business in two provinces?

A.—As I have said, the two provinces will be settling it between themselves; it is no part of the Income tax Department's duties In this province we found that the revenue increased when the rate of tax was increased, but the assessed income did not increase, it had fallen

Q.—In answer to Q 156, you make the suggestion that the total revenue derived from income-tax should be divided beteen Imperial and Provincial You also say that the Central Government should regulate the rates, but the Central Government would obviously regulate the rates according to their own needs

A.—I do not know what the understanding between the two Governments is Instead of calculating the Local Government's share at one pice per rupee of the extra income, it should be so much of the extra revenue

Q.—But the extra revenue would depend on the rate of income-tax?

A.—Yes.

Q.—The Central Government would levy the rate according to its own needs

A.—It should take into consideration the share that would go to the Local Government.

Q.—Different Provincial Governments might have different needs One provincial Government might want a greater sum, another less.

A.—They could be very easily calculated and budgeted for

Q.—All provinces will have to be treated in the same manner.

A.—That depends upon local requirements

The President. *Q*.—I think the witness's idea is that the Government of India might say "we want one anna this year", province A might say they want 6 pies, and province B, 9 pies.

A.—As it is, there is an appropriation of income from income tax between Provincial Governments and the Central Government At present the Local Governments get one pice per rupee of the extra income. Sometimes, it so happens that even if the Income-tax Department makes more money, very little share is given to the local Governments

Dr. Paranjpye. *Q*.—But the greater income is made, because the rate has been higher

A.—And yet there has been a disappointment to the Local Government The principle of the extra income being divided should be observed.

The President *Q*.—Would it be practicable for each Local Government to have a Finance Bill on the plan suggested?

A.—I do not think it is necessary. The rates will have to be regulated by the Central Government. They will know what portion of the income to give to Provincial Governments.

Q.—You are suggesting that the Imperial Government should put on whatever rate it likes and you get the income, whether you want it or not.

Would it be practicable for your *Department to collect profession tax for local* bodies?

A.—I have sent my reply on this subject to the Local Government, in which I have stated that it would be practicable, but it is not desirable

Q.—Why not?

A.—I am not quite sure if many local bodies would agree to the Income-tax Department collecting these for them

Q.—Why won't they agree?

A.—It depends on the local conditions

Q.—Do not the local bodies desire to have information from you as to what the incomes are?

A.—Not at all In fact we get our information regarding those assessees in the municipal areas from municipal records The man who has a profession does not keep any account of his earnings Therefore, the municipal members and the income-tax officers will be equally ignorant of his income

Q.—I am speaking about people who are paying income-tax You have in*formation regarding their income and the preparation of the schedule is a matter* of a few minutes.

A.—We have that income as ascertained from the man himself or from the municipal records Our information is derived, to a great extent, from the municipal records

The President *Q*.—Is it not a waste of money and a cause of harassment to the assessee that he has to be assessed twice over, once by you and again by the municipal body Would it not be much simpler if the profession tax was collected by you and paid to the municipality?

A.—It would be simple to have one assessing officer, but I think it is very difficult to do it in practice. In the first place, so far as professions are concerned, the members of the Municipal Committee would be better able to know the incomes of their assessees than the income-tax officer

Q.—*Do you mean they would challenge the correctness of your assessments?*

A.—No, they would be in a better position to know the income

Sir Percy Thompson *Q*.—Is it not a fact that the profession tax is very badly administered by the local authorities?

A.—I do not know if there is any profession tax worth the name in the Central Provinces There is something in Berar, even that is not, really speaking, on profession it is levied on people who practise what is called *dalali*

Dr Hyder. *Q*.—*This tax is not levied here, and you have no desire for it?*

A.—No.

Dr. Paranjpye *Q*.—It is one of the optional taxes?

A.—Yes; so far it has not been levied in the Central Provinces, and in *Berar only what is called dalali* exists

Q.—You are very emphatic that the administration of income-tax should be independent of the electorate?

A.—That is my idea

Q.—Would not that apply to the profession tax also?

A.—I think it should

Q.—Would it not be desirable that an independent central staff should be appointed?

A.—Those whom they elect would themselves make the assessment.

The President.—You would rather not give an opinion.

Q

13th February 1925.

Nagpur.

PRESENT.

Sir CHARLES TODHUNTER, K C S I, I C S, President.

Sir BIJAY CHAND MAHTAB, G C I E, K C S I, I O.M., Maharajadhiraja Bahadur of Burdwan.

Sir PERCY THOMPSON, K B E, C B.

Dr R P PARANJPYE

Dr L K HYDER, M.L A

Dr. PRAPHULLA CHANDRA BASU, M.A., B.L., Ph.D., Vice-Principal and Professor of Economics, Holkar College, Indore, *was examined.*

Written memorandum of Dr. Basu.

Q. 6—No Because in each of the three cases mentioned I believe that there will be habitual under rating I have had some practical experience of item No. (1) My experience is that employers habitually exaggerate the good conditions of labour Frequently I have had complaints from the labourers that the wages as shown in the list of employers never reach them This is due partly to the intervening jobber who takes a share and partly to what pass for disciplinary measures according to which automatic deductions and fines practically prevent the labourers from normally receiving the wages shown in the employers' list

From what I know about urban land and building valuation, the land-lords almost invariably under-rate the value and rental of their land and house property.

Thus the plan will not give any accurate or reliable figures Also accuracy will depend upon the checks that can be exercised upon the landlords' valuation As these must vary from locality to locality, I believe that we cannot even get at any common type of errors for which proper allowance might be made in order to draw any conclusions of economic importance

Q 8—The list is sufficiently exhaustive. I would not rely upon them to form a basis of an estimate of the incidence of taxation on different classes. My reasons are :—

(1) They are too fragmentary and disjointed, sometimes even for a district or a province, not to speak of the whole of India.

(2) The standard and basis of the works in the list vary so very much that the estimates of two works on the same locality, based practically upon the same facts, lead to different and often divergent conclusions

(3) When statistics are insufficient the writers naturally make allowances which are often guesses These wholly depend upon the bias and local observation of the writers, both of which vitiate the conclusions

(4) In the case of family budgets most divergent results can be obtained by two persons in the same locality or even in the same families.

for the reliability of the work wholly depends upon the confidence of the families in the investigator. It should be noted that the illiterate people, as a rule, wholly distrust the educated people, for unfortunately there is a divergence of standard and outlook which have led the latter often to exploit the former.

Therefore, until there are such studies made for all sorts of economic regions in India and several independent studies for the same region and the results of all co-ordinated and roughly reconciled, I would not use these studies for the present purpose of the Committee They are admirable in their own way but are of no use for the present enquiry except as guesses by scholars

I regret that I cannot suggest any process for ascertaining such incidence as the Committee want. I suppose that time is not ripe yet for such determination of the incidence with any degree of scientific accuracy

Q 13—I would rule out (*a*) unless the article be a thing of vital necessity for the life of the nation and its consumption be as yet very limited per head of the population At present I cannot think of any article which is so Whether it should be (*b*) or (*c*) will depend upon the quantity consumed and the elasticity or otherwise of the demand for the article If the former is very large per head of the population so that there is little stinting of it by even the ordinary people, I would have monopoly profit For, with a large consumption and low marginal unity, the consumers' surplus will be high, and the consumers should be able to stand a monopoly profit The total national benefit will be the consumers' surplus for the nation and the monopoly profit to the Government If the former be very large, the latter which, when first fixed or subsequently altered, is likely to come out of the former *plus* any reduced cost of production owing to the economies of large scale output of the monopoly, cannot be a great burden This will be especially so if the demand for the article be inelastic as a result of its consumption being extended far towards the level of satiety

The element of taxation may appear only in case (*c*), not in cases (*a*) and (*b*) In case (*c*) also it will appear only when the quantity at which the rate of monopoly profit multiplied by the quantity is appreciably less than the quantity in cases (*a*) and (*b*) In the circumstances presumed above, *viz*, large consumption and inelastic demand as a result of it, the difference in the quantities in the three cases is not likely to be great, and yet, by the nature of the circumstances presumed, the rate of monopoly profit will be comparatively high.

Q. 14—The element of taxation arises only when the price charged for the services exceeds their price when sold by rival producers to the consumers It has no reference whatsoever to the question whether greater benefits may or may not be conferred upon the consumers by a reduction Thus the question depends upon the utility of the services to the consumers and the possible reduction in the cost of production The former is difficult to ascertain for obvious reasons The latter is so because, in the case of a monopoly, the cost of production cannot be compared by a reference to rival producers and because the special economies of large scale production which tend to make the monopoly cost of production lower than the competitive cost of production, cannot be ascertained

(*a*) *Railways*—Although there have been undoubted hardships upon the poorer classes by the rise in railway fare during the last six years or so, I think that the price paid does not even approach the great utility derived from the services by the public If, however there is any possibility of reducing the cost of production as experts aver that there is, to that extent the rise in the rate and fare charge has been uneconomic for the national loss is to be judged more by restrictions on trade and movements of the people—a highly complicated matter to ascertain—than merely by the loss to railways in reduced custom calculated quantitatively Moreover any such reduction from the poorer classes inflicts greater national injury than when it is from the richer classes From this point of view I regret the lowering of the first and second class fares recently introduced in the E I, G I P, and B B & C I. Railways, while the third and intermediate class fares have been left untouched To an almost indefinite extent I would give preference to the latter rather than to the former

Q 2

(*b*) *Tramways.*—I have experience of Calcutta and Bombay only. I think that the fares are not taxes to any material extent. The price for the services seems to be quite moderate, that is, an amount which the consumers would have to pay in any circumstances. In Calcutta, however, there is one defect, *viz*, that over a line, which usually is very long, there is the same charge irrespective of the distance; but probably this is due to practical considerations.

(*c*) *Posts and Telegraphs.*—The prices have increased very much in recent years Yet I think that the charges are moderate, and so long as they are so, the element of taxation cannot enter to any great extent.

(*d*) *Profits on coinage or exchange*—The profits on coinage as such have absolutely no element of taxation Money is used at its face value, and the intrinsic value which only is affected by the token character of the coin (giving rise to profits on coinage in India over and above the segniorage charge) has nothing to do with the consumers

In the case of the rupee, however, since the breakdown of the exchange system in 1920, there is the effect through exchange. In normal times when the exchange rate is stable by the machinery of Council and reverse Council drafts, no effect is possible once the exchange has its reflex in the adjustments of internal prices; after that the exchange rate has no effect as a tax or otherwise, for, although the currency may be managed in the sense that it is regulated by a machinery set up by the Government, it is automatic, the increase and decrease in the currency being regulated by the release and withdrawal of the currency in response to the needs of external trade, that is, on exactly the same principle, although by a different process, as the adjustment in a country using a standard money with free coinage. At present, however, as a result of the breakdown of the gold exchange system, exchange profits indicate changes in prices in India, especially with regard to the articles subject to external trade, and through them sympathetically to others, which have little to do with normal price changes as such In regard to non-Governmental transactions the loss to the exporters tends to neutralise the gain of the importers and *vice versa*, although the incidence must affect different classes differently. But to the extent that this hinders trade whether as a result of uncertainty or as a result of diversion of production away from the channels determined by normal economic causes, the element of taxation certainly enters, and, I believe, inflicts a greater loss to the payer of the tax than the amount realised by the Government This is wholly against the canon of economy in taxation. But the question of exchange is not merely nor primarily a question involving the subject of enquiry by the present Committee

Q 15.—I can only deal with the second part. No one of the plans can work so satisfactorily as one based upon the principles of several of them:—

(1) The cost must be realised and the total amount of the charge should not be less than the total cost except in areas where the object is to develop agricultural lands, the charge in which case may be less than the cost But normally it should be more, how much more is to be determined by taking into account one of the principles of taxation in such cases, *viz.*, what the industry will bear. Not that it should be taxed to the full extent of its capacity to bear a tax, but that this question should be taken into account

(2) To charge a fair commercial profit would be a good plan if no idea of taxation be present In order to tax the rate must normally be higher. One caution is necessary here, *viz.*, that there should be a carefully devised method to determine what is "a fair commercial profit" without leaving it to the discretion of the officials in charge or to the financial needs of the Government. The latter consideration can enter only when a portion of the rate charged is meant to be a tax.

(3) This would be wrong and dangerous Land increases in value for various reasons. Water supply is only one. If improvements be made by the cultivator, a portion of that also will go to the Government if this rule be adopted. Such improvements are often in many small matters, the effect of which cannot be determined and

provided for. A little manuring, a little more careful ploughing, a little discrimination in the choice of seeds, a little more strict watch by the night, a little fencing against the intrusion of animals, a little care in choosing the exact time for ploughing, sowing, weeding, and reaping,—all increase the output without any obvious improvement, a portion of which will automatically go towards the water rate Such a rate will directly discourage such minor improvements and is not at all desirable in a moribund industry like agriculture in India, which yet supports, and, in spite of any rapid development of manufacturing industries, will continue to support the largest number of the population in India

(4) To charge by volume would seem to be eminently fair But it is not so if the object be taxation and not commercial profit. The same volume of water may be taken by two fields, but if the fields be differently productive as a result of the water supply,—a fact which is likely, for the inherent powers of the soil respond differently to the same kind of stimulus—the water rate will bear a heavier proportion to the total cost of production in the worse field than in the better. In other words, taxation will be unequal and pressing more heavily upon the one which is less able to bear it This will violate the first and the most important canon of taxation, *viz*, the canon of equality or justice.

(5) *This will surely bring into existence the middleman-seller* of water, who is likely to be a non-cultivator Being a monopolist he will charge extortionate rate The better lands will naturally get more water because they can pay more Thus the bad lands will be penalised, the good lands will pay an amount of tax which will be higher than the amount which the Government would receive by the amount of the middleman's profit This will violate the canon of economy in taxation.

I would, therefore, rule out (3) and (5) as unsuitable and even dangerous, and recommend a plan based upon a proper combination of the principles as discussed above in the case of (1), (2), and (4)

Q 16—It is right that the State should take a portion of the large increase in the value of land as a result of water supply But as pointed out in answer to Q 15 (3) it is not easy to determine such increase The natural tendency of the Government would be to exaggerate the increase due to this cause If a fairly large margin is left out and then the rate is increased on the rest, it is not likely to encroach upon the increase in the value of land due to other causes Therefore, the increase owing to water supply should be cautiously estimated and I would charge upon this an increased rate approximately the same as is charged in the case of land revenue, *viz*, about fifty per cent of such increase A lump sum should never be taken It is difficult for the cultivator to pay and it is unfair to future Governments It should be a betterment tax on the principle on which land revenue is now enhanced It should not, however, vary too frequently, say, not more than once in five or ten years *according to the developing or developed nature of the soils in the locality*

Q 19 and 20—The idea behind these questions is probably that when particular services are given and the tax for them paid, its incidence should be neglected while taking into account the incidence of taxes whose effects are not so direct nor confined to the locality But there are dangers to such classification involving principles A tax, raised and spent specifically in a locality, confers benefit upon the community as much as any other tax raised from the whole country and spent generally for beneficial purposes The change of unit from the whole country to the locality does not introduce any change in principle The principle that, apart from the area, the *persons* who pay the tax are benefited by its expenditure is wrong and dangerous For on that principle, a man with no children to educate should be exempted from the education cess, a stay-at home, from the road cess, and a rich man keeping all his money and other valuables in the bank and a number of servants at home, from the *chowkidari* tax.

Q. 21—I think that Mill and Bastable are right, and Adam Smith and some of his modern followers are wrong in this matter To the extent that an indirect tax is voluntary, it means the capacity of the consumer to reduce his

consumption. To this extent the productivity of the tax—an essential consideration in the case of all taxes—is reduced or at least threatened, and therefore the tax is not a good tax. To the extent that he pays the tax it is in most cases compulsory because in consumption we presume that he makes the best distribution of his expenditure in his purchases. At any rate this evasion by reduced consumption is possible in the case of a luxury or superfluity. The demand for this is elastic Therefore, a large reduction in demand will follow a comparatively small tax imposed Thus the amount coming to the Government will be at the cost of a large reduction in the consumption and therefore a large reduction in the production of that article Although the incidence of the tax will fall upon the consumer, its effect will be more widespread because of elastic demand To the consumer it is the loss of utility from the reduced portion *minus* the original price , to its producer it is the loss of profit on the reduced portion of the output This, of course, has almost interminable repercussions on other articles in the case of an article with fairly large consumption. And the tax will not be worth much if the article has not a fairly large consumption.

I would, however, call an indirect tax the best tax on another ground, *viz.*, that it is not felt as such and therefore is less grudgingly paid.

Q. 22 —The question does not arise after the above answer to Q 21

Q 23.—Both tobacco and intoxicating liquors are luxury or superfluity. Economically they may even reduce efficiency. But they are additions and *therefore the demand for them is not elastic If so, a rise in their prices on* the imposition of a tax may not proportionately reduce their consumption materially Human nature being what it is, the reduction usually comes more from other articles which may be efficiency necessaries than from these. If so, or to the extent that it is so—and we believe that to a large extent it is so—the tax certainly imposes economic burden, often very heavy too In such cases of luxury whose demand is inelastic the incidence of a tax falls less upon it than, by shifting by readjustment of consumption, upon other and less harmful or positively useful articles. This is not meant to be a plea for not taxing these articles but a caution which is often not realised, as it is apparently not in the quotation if its context does not qualify the statement.

It should be noted that the above discussion does not deal with the question of reducing the consumption of these articles for social benefit but purely with the incidence of a tax upon them.

Q 24 —A tax upon entertainments will certainly be welcome, for such consumption can never be addiction in the sense in which tobacco and intoxicating liquors are This tax is voluntary to a much greater extent, although I think that it is wrong on principle to presume that in calculating the incidence of the tax system as a whole, this burden should not be considered as such. A voluntary burden is a real burden inasmuch as it reduces the taxable capacity of the payer The answer to Q. 21 also applies to this case.

A tax on railway tickets is really a rise in the fare charge, only distributed inequitably because it is usually a fixed sum irrespective of distances which one may travel, because the higher classes are not taxed at a proportionately higher rate, and because it falls upon some only, that is, the points at which the tax is levied. If it be levied on all it would be better as a tax. But it would be dangerous, for the expected benefits of the recent separation of the railway budget from the general budget will be reduced by permitting interference in railway tariff for the interest of the general budget. On this ground I *would disapprove of it on principle. If it has to be levied it would be better* to charge it from the railway budget leaving the latter to realise it from the consumers in the best way possible It will be best if it be avoided, at any rate now just after the separation of the railway budget.

Q 25 —I think that this is hardly possible Tobacco is taken by all classes whether in the form of smoking cigarettes or *hooka* or taking snuff or chewing the leaf. Liquor is taken by some from all classes of the society, and no class as such can be definitely isolated, who can be easily taxed otherwise The same is for railway journey. The whole point here is whether the class as such can be so definitely ascertained that the incidence upon the class can be estimated and corrected by the levy of some other tax or taxes I have not got any materials for judging but I feel that the answer to the question is in the negative

Q. 27 —Every member of the community cannot bear a tax, however small it may be There must be exemption for some although it is very difficult to levy any indirect taxes on necessaries without burdening them The only general test for exemption that I can think of is whether the man or the man whose dependent he is earns an income or not. But how can this test be applied in the case of indirect taxes?

Q. 28 —As the question is really political, I would answer it very briefly. My answer is yes, for representation from the various classes of the community reflects more accurately than any other means the burden and injustice if any of the taxes, the incidence and effects of which are extremely difficult to trace and yet necessary to do so in order properly to apply the principles of taxation.

Q. 29.—As far as possible taxation should be indirect, not because it becomes thereby voluntary but because (1) it is more convenient to pay, in fact it is paid by instalments at convenient times by the ultimate payer, (2) it is rarely felt as a tax and hardly as a burden except on its first imposition and except when it is very high, and (3) it can be more conveniently and economically collected by the Government.

In order to attain to the principles of taxation, which, by the way, are to be applied to the tax system as a whole and not to each tax separately, it is necessary to keep some direct taxes. In India the only important direct tax is the income-tax, the land revenue not being one *Vide* answer to Q 96

Q 30 —A poll tax has a bad odour about it If operated with sufficient precaution and with necessary exemptions, it may work But in taxation as in any other affairs of governance sentiment has a large place

Q 33 —It seems to me that we are not far from the limit in the income-tax in India If an increase is necessary, I fear, that we shall have to lower the limit of exemption and increase all through the graduation An Indian with an income of £500 pays 3 12 per cent as against 3 3 per cent in England It may be argued that in England the standard of living is higher than in India But the dependants of an Indian, because of the system of joint family, are much larger Also a high tax reduces the effective income and therefore hinders a rise in the standard of living as judged by its effects upon economic efficiency. It appears that incomes between £1,000 and £10,000 are comparatively lightly taxed in India If compelled to raise the income-tax I would levy a small tax on £100, and a higher rate on the above incomes than now before I would go to incomes below £1,000 and above £10,000.

Q 35 —Unearned incomes should most certainly be taxed at a heavier rate than earned incomes In India this should particularly be so in the case of big incomes from land But such incomes now go practically untaxed with the result that earned incomes—from trade and industry and profession—have to make up for them Indeed, a few years ago, 1920 if I remember aright, a proposal that a landlord's other income should be taxed at a rate to be assessed by the inclusion of his income from the land, which itself was to remain untaxed, was rejected by the Central Legislature I would call this highly unjust. The difficulty, however, in the case of unearned incomes is to ascertain their exact amounts If a liberal margin is left out I think that it is quite practicable to tax unearned incomes, and they should be taxed heavily.

In the case of "sums shown to have been invested in productive enterprises" the tax should not be on the sums but on their incomes because the income tax in India is imposed upon the income and not on its capitalised value As the sums are employed in productive enterprises I would not tax their income as heavily as incomes from land, although more heavily than incomes earned directly But does not the income from the sums invested represent enterprise? If so, will not a too heavy tax discourage saving?

Q 36 —No If attempted, it will lead to grossly inaccurate results. Every big joint family has some dependants who are very distant relatives but are really servants in the family All these would at once be raised, in official statements to the dignified status of real dependants upon the income of the joint family.

Q 38 —I am whole heartedly in favour of removing the exemption of incomes from agriculture For purposes of Q 35 the distinction between the farmer's income which is earned and the income of the absentee landlord or the money lender-owner which is unearned is necessary. I cannot say anything accurately

about the proportion of actual farmers who will be affected under the present limits of exemption. But I should think that a very large number will be exempted and deservedly so On the other hand, I should think that the increase in the revenue from the income-tax will very substantially increase as a result of the absentee and the money-lender-owner coming within the net.

Q 39—I am not inclined to agree with the statement I have not got the figures for the whole of India But in Bengal where the system of zemindary tenure prevails Government get an income of about four and a half crores of rupees out of a total estimated rental of eighteen crores I feel that an income-tax of about one crore can be raised if the present rate be applied As Eastern India has extensive zemindaries whereas Western India has only a few, I would expect about eight crores of rupees instead of "from sixteen to twenty crores of rupees" But my estimate is a pure guess On the other hand, if the normal rate for land revenue be charged in Bengal, *viz*, fifty per cent of the rental, the increase in revenue from Bengal alone will be about four and a half crores

Q 40—I do not feel like agreeing The argument is that because the agriculturist is hard pressed without any exemption, therefore the others should be dragged down to the same quagmire The comparison with the minimum of other countries is not quite accurate The normal size of the family in India is higher than in other countries where the system of joint family does not obtain, where the women have some means of earning, and where, like India, if there is one man earning two thousand rupees there are not two hundreds who do not and who partly depend on a relative who does. However, if there be urgency for raising more revenue, I would agree to reduce the exemption limit to fifteen hundred rupees The figures, as quoted in the Note to the question, do not take into account the rise in the price level I think that the purchasing power of fifteen hundred rupees to-day is approximately the same as that of less than five hundred rupees in 1862 Thus the present exemption of two thousand rupees is not much higher than the exemption of 1862

Q. 41—In spite of the attempted improvements I believe that partially at any rate the income tax is a tax on honesty. Cases are not unknown where some people keep two entirely different sets of accounts, one for their own use and the other for the consumption of the income-tax official I think that the question involves business morality and civic sense as also the probable fact that the assessing agency may not be above temptation

Q 42—This would not avoid the difficulties pointed out in answer to Q 41 Moreover, the Indian system of keeping accounts varies much from province to province The suggestion of the Indian Industrial Commission that Indian business should be compelled to keep accounts on the English system is absurd I would rather compel every bank to have an auditor who understands the Indian system of keeping accounts

Q 49—With the first quotation I substantially agree But in order to make the small number of taxes very productive they must be imposed upon articles of wide and general consumption, which in India would mean necessaries of life.

The second quotation is only theoretically correct. It is apparently not realised that a tax as such becomes ineffective to the extent that it discourages consumption The social effect may be good but productivity is the first desideratum for a tax. Moreover, as already pointed out in answer to Q 23, if the articles are addictions, efficiency necessaries may be reduced rather than these.

Re the third quotation I do not agree with the first part even as a counsel of perfection. More luxuries can never yield a very high income as their demand is elastic The poorer the country is, the greater is the elasticity of demand for luxuries. Few such taxes in India would yield big revenues Also it is idle to say that "in a country where three-fourths of the population consumes no luxuries", "there is no hardship in such a tax", that is, a tax on necessaries. The hardship is great indeed We should rather say "there is no option but to have such a tax".

Q. 50—I think that graduation in indirect taxation is practicable in all cases where the present levy is *ad valorem* Whether or not *ad valorem* imposition is advisable is a different question *Vide* also answer to Q 95.

Q 51.—Yes, I generally agree with the statement quoted.

Q. 52.—With the assumption, yes.

Q 53.—The basis of comparison implied in the question is wrong. When compared with other countries the incidence per head is useless unless we know the income per head of those countries, the standard of living, and other demands made by taxation As a rule, the lower the income is, the higher is the cost of necessaries in proportion to that of luxuries and other things This has been established by Engel's law of consumption The higher the proportion of the cost of necessaries to the total expenditure, the greater is *ipso facto* the burden of a tax on necessaries Also the lower the income, the greater is the value of money and therefore the greater the burden which, like a tax on necessaries, one is compelled to bear Therefore, unless the above relevant facts are known it is impossible to say whether the present rate of salt tax in India is high or low Also sentiment is important here.

Q 55.—Yes, if the Government monopoly can really secure the economies of large scale production Even the Government that is most efficient as government is not necessarily a good business manager, the two functions are so entirely different

Q 56.—The idea is wrong The duty will simply raise the normal price of salt and make it as scarce as it became in an exceptional emergency like the late war for which no country can make adequate provision in anticipation

Q 58.—I would advise Government not to think of interfering in such measures It would only unsettle things and create suspicion So long as there is no fraud or apparent injustice, it is outside the scope of Governmental interference

Q. 59.—That depends upon the relative positions of the centres of production and those of distribution. This is a matter of detail and will be best left to the administrative machinery

Q 60.—It will be too costly for a vast country like India But if it were practicable it would make the salt tax one on consumption only instead of, as at present, a tax also on the production of those who are least able to bear it, viz, the ordinary agriculturists

Q 61.—In particular areas, yes Generally for the whole of India, no, for the present and a long time to come

Q 62.—I do not advocate total prohibition on the ground that it should be left to the choice of the individual consumer, who should be educated by propaganda

(*a*) is impossible None of the means suggested is less burdensome than the present excise revenue,

(*b*) is better But this would mean tapping sources which I would consider as reserved for emergency use rather than as a suitable substitute for the excise duty

Q 78.—Yes Every tax means some interference with the economic activities of the people concerned The nature and effect of such interference are most difficult to discern but there is no doubt that they are there So, the aim should be minimum interference Such interference can be justified by overwhelming benefit to the State, to be judged by the amount of the revenue as also by the urgency of the needs of the State Hence a few articles should be taxed, which yield a large revenue Also this tends to reduce the cost of collection But the number and variety of such articles should be such as to impose, as far as possible, equal burden in proportion to abilities If some readjustments be necessary that can be done through some other taxes direct or indirect or both It should be noted in this connection that in order to derive a large revenue by taxing a few articles, they should be articles the consumption of which is very wide In a country so poor as India where few luxuries are consumed widely by the masses of the people, they tend to be necessaries, bare or efficiency Therefore, the burden upon the poorer classes tends to be greater than upon the rich This should be kept in view when deciding upon the articles which are to be taxed and when imposing other taxes to realise equality in taxation

Q 83.—*Ad valorem* duty has the advantage that the burden of the tax varies, as it should, according to the price, that is, according to the ability of the article to bear a tax But the disadvantage is in the imposition of the tax where a good deal of uncertainty and therefore of scope for fraud, corruption, and extortion comes in On the other hand, *pro rata* or specific duty makes

for certainty but involves the same burden on good and bad qualities of articles. I would have a combination of the two The rate of taxation should be fixed according to the value But its imposition should be *pro rata* This can be attained by having a classification of the articles to be taxed into different grades according to their value, and taxing each grade of article according to its weight or volume, that is, *pro rata*

Q 87—Productivity of a tax covers a multitude of sins So, the use of a tax like those included in Annexure K depends upon its productivity subject, of course, to the question of justice of its imposition It seems to me that a tax, fee, or license duty may profitably be imposed in India in regard to the following auction sales when they are organised and on a sufficiently large scale. otherwise the cost of collection will be too high; bicycles, if the tax is not very high and does not interfere much with their wide use in the business life of the people, entertainments that are organised on a sufficiently large scale to be taxed without an army of inspectors, etc.

I think that if there be any pressing need for revenue the following may also be included

(1) Advertisements The revenue is likely to be good but the tax will fall upon trade and industry (2) Banking transactions In order not to hinder wide development of such transactions among the masses of the people, which is and should be the present policy of Government, I would tax such transactions only after exempting transactions below a certain minimum (3) Insurance The same considerations as in (2) apply here (4) Motor cars As these are not produced in the country and as they already pay a heavy customs duty, I would tax them further by imposing a license fee only when there is urgency for raising more revenue (5) Safe deposits If necessary, I would tax them *but only after exempting a minimum This tax can, however, be evaded by* distributing such deposits in various banks But the income from them being in the nature of unearned income, they are a fit subject for taxation (6) Tourists Their number is increasing They are certainly a fit subject to be taxed But the revenue is likely to be small and the trouble and vexation to the tourists are likely to be disproportionately great.

I would not substitute any of the above for the whole of any existing tax. But I would impose some of these taxes in order to reduce some of the existing ones For example, the salt tax may be reduced to what it was in 1924, especially in view of the strong sentiment against its increase I would also reduce slightly the sugar duty if it is not meant to be protective I would drastically reduce the export duty on hides and skins, the export trade in which is likely to be killed if the present tariff be not revised early.

Q 89—For non-economic reasons the stamps collected on judicial proceedings should be so limited as just to pay for the cost of courts, including pensions of officers and capital cost of buildings In India it is notorious that the illiteracy, ignorance, and poverty of the people are often handicaps for them in getting justice, especially against a strong, rich, and wily party. Therefore, it should be made as cheap as possible Even if it be not practicable to do so I would reduce to the minimum the stamps on rent and other suits which affect the cultivators and other small holders of land

Q 90—Hobson is right. But almost all taxes are in restraint of some economic activity and therefore of production in the broad sense.

Q 95—*Vide* answers to Q 24 and Q. 87, subject to the answer to Q 21. I would extend the tax in all provinces if the revenue justifies such extension. I believe that the cost of inspection and collection will not be very great if entertainments of a certain organised types carried on on a sufficiently large scale are taxed, *e g.*, cinemas, theatres, circuses, races, etc In fixing the amount of the tax I would take into account the fact that some of these entertainments, especially cinemas, are not merely entertainments but that they have some educative value; also that innocent entertainments have a healthy social effect, especially in a big city where unhealthy or immoral entertainments which cannot possibly be taxed are abundant. The principle of graduation or progression (*vide* Q 50) can be applied in the case of all entertainments where the customers are divided into classes obtaining entrance by paying different amounts for the tickets

Q 96.—For the purpose of the present Committee I would define a tax as a compulsory payment by the subjects to support the public powers, which is charged in order to cover their expenditure and which therefore varies according

to the needs for that expenditure I would define rent as the surplus of the income from land or any other free gift of nature allowed by social custom to be appropriated, over the cost of production which includes normal wages, normal interest, normal earnings of management, and normal profit, that is, that which accrues to the owner of land because of appropriation alone, and which therefore varies without any reference to the needs for expenditure on the part of the public powers or other owners of land As Baden Powell pointed out long ago it is "a war of words" to try to classify Indian land revenue either under 'tax' or under 'rent" It resembles a tax because it is a compulsory payment out of the income from production but it differs from a tax inasmuch as it varies according to the rules of assessment which have nothing to do with the needs of Governmental expenditure. It resembles rent because it varies with the surplus which is true economic rent but it differs from rent inasmuch as it is only a portion of economic rent The above considerations of principles apply to all the systems in force in the different parts of India, although in permanently settled areas the amount is very much less than in other areas and in ryotwari systems it more approaches rent than in zamindari or other systems

Q 97—The prosperity of the cultivator is partially affected by land revenue, especially in the case of holdings in ryotwari areas which just yield the economic income for maintaining the family For the normal wages and normal profit in agricultural operations are elastic terms and may or may not cover the efficiency expenditure of the cultivator and his family In the other system it is not directly land revenue but the rent in the popular sense paid to the zamindars which affects the cultivator, here, however, tenancy laws protect him although not as effectively as might be desired In general the economic prosperity of the cultivator except on the margin of profitable cultivation—and the number there is large in India—is not materially affected by land revenue as fixed in principle and law. There is, however, a good deal of criticism of the application of the principle and the administration of the law

The causes which really affect the prosperity of the cultivator can be considered under two heads The prosperity of every producer depends upon (1) the price which he receives for his product over and above his cost of production and (2) the price at which he has to buy the articles which he consumes In the case of the cultivator the former is affected by whatever depresses his price. This is so by every sale in advance irrespective of the price which is likely to follow, by every form of ignorance of and want of capacity for handling goods which will greatly improve their value (*vide* Report of the Indian Industrial Commission, Chapter V, section 87), and by every uncertainty of the market which is due to want of proper organisation Secondly, his cost of production increases by every wasteful method including too great subdivision and fragmentation of holdings, and burning of dung as fuel instead of being used as manure, by every illegal exactions in which the country abounds, by every loan at an exorbitant rate, by rise in the rent which depresses or does not allow him to raise his standard of living and therefore his standard of efficiency, and by his illiteracy which prevents him from understanding his accounts and therefore be defrauded and pursue wasteful methods without being conscious of that On the other hand, the price which he pays for the articles which he consumes affects his prosperity. Every rise tends to depress his economic well-being as every rise in the price of his product tends to raise it, as also any increase in the output as a result of improvements which increase the output more than the increase in the cost of production.

In this connection I should especially point out that—I may be permitted to use strong expressions since agriculture engages such a large portion of the population of India—the craze or fad for developing manufacturing industries tends to increase the price which the cultivator pays for his consumption and to decrease, by proposals of export duties on raw materials like cotton, oilseeds, etc, the price which he gets for his product I consider this want of consideration for the economic welfare of the majority of the nation as nothing short of criminal

Q 99—The only means of avoiding this inequality is to apply the tabular standard In fact this is one of the objects of the tabular standard But in India prices vary in different parts and the statistics are inadequate and unreliable To this extent the inequality is unavoidable

Q 100—*Vide* answers to Q 33 and Q 40 I think that such exemption for agriculturists' income would be impossible to obtain directly unless there is

a very efficient machinery to record figures of agricultural production, its price, and the cost of production But indirectly this may be partially obtained by stricter rules for increase in land revenue in ryotwari areas and for increase in rent in the tenancy laws. This will not lead to further fractionisation of agricultural holdings

Q. 101 —I would not approve of a tax on mutations with a view to checking fractionisation Usually fractionisation follows either of two causes, *viz*, (1) the break up of a joint family on the death of the owner, or (2) to pay a debt which cannot be paid except in that way If (1) is prevented enforced continuance of the joint holding may ultimately be very uneconomic by causing too much friction and even by entailing ruinous litigation If (2) is prevented the whole holding may change lands and pass to non-cultivating money-lender owner Also any attempt to prevent fractionisation would interfere with the law of inheritance which, among both Hindus and Mussalmans, is based upon religion The problem is acute and complicated but there is no simple remedy. The only remedy that strikes me is to organise, by propaganda, public opinion in villages against further fractionisation and in favour of consolidation. In the present temper of the country I would not alienate the peasantry by even a false sentiment against any measure of the Government

Q 104 —The incidence of land revenue can be estimated by the methods numbered (4) and (5), it does not matter which, provided that the test is uniform In comparing the real burden upon the cultivator a distinction must be made between ryotwari and other tracts, for, in the latter, the land revenue means only a portion of what the cultivator pays

Q 106 —*Vide* answer to Qs 19 and 20 The division is not between national and local. In a general sense all taxes are beneficial, that is, to the State under which the tax-payer lives The change in the unit of area does not make the army expenditure onerous and the chowkidari tax beneficial The real distinction between national and local taxes is that the former are to cover all the expenditure of the Government while the latter are usually earmarked for a special purpose. The ability to pay, therefore, applies to the former and the measure of the benefits received applies to the latter If there were a national tax earmarked for a particular purpose, the second principle will apply to it, and if there were local taxes levied for general purposes, as there might be, the ability to pay will be the test

Q 109 —The criticism applies generally to octroi duty as it is levied now The number of articles is too large and mostly necessaries because otherwise the required amount will not be realised Therefore, also the poor men's burden is proportionately heavier than that of the rich men

As octroi duty is usually not earmarked for a particular expenditure in the locality the question whether "the burden of the tax is not distributed in any degree in proportion to the benefits gained by local expenditure" does not arise (*vide* answer to Q 106) except to the extent that it can be relevant in the case of all taxation in relation to the expenditure of the income of the Government

There is no doubt that the octroi duty is vexatious and interferes too much with trade. The extent of evasion is also large due more to bribery and corruption than to smuggling except where it is easy to smuggle. It is easy to smuggle all articles which have a high value in small bulk, *e g*, gold, jewellery, etc.

Q 112 —It all depends upon the intention of the levying body. Usually these taxes are meant to be borne by the owner but, in towns and other congested places where the demand for house and land is high, a portion is almost invariably shifted on to the occupier. For example, a shortage of supply of houses would enable the owner to throw the burden, wholly or partially, upon the occupier, just as the reverse condition would enable the occupier to throw his tax on the owner. This is what would happen apparently To the economist the effect is really a rise or fall in the price for the services of houses irrespective of any tax. The general principle is that the tax falls upon the party whose demand is inelastic

Q. 120 —(i) Like the *impôt unique* it is too simple to suit modern conditions. It is indeed on income and not on land only But the principle is substantially the same, for in those days land was considered to be the only source of production. It will be worse for it will leave intact all the inequalities which arise out of taxing income instead of the capitalised value of an income and which are, to a great extent, mutually corrected and adjusted by the various

taxes interacting upon one another It is hardly fair to tax a man who lets out his house or motor car on hire when the tax leaves out the man who lives in his own house or uses his own car Similarly, the income of the lawyer or physician or merchant which depends upon his being able to continue his work will be taxed in the same way as that of a landlord or house owner or investor who exerts little to earn his income from day to day.

(ii) Subject to answer to Q 87, I would accept most of these taxes I would, however, say a word about two of these Registration of marriages should not be made compulsory where it is not so already This is sentiment which is very strong among both Hindus and Mussalmans Again, servants are not always a means of display. The servant of the cultivator, where he keeps one, is a necessity. Servants beyond a certain number, which varies according to the productive work done, would be so.

(iii) This will be painting coal with a black dye The incidence will fall on the already heavily burden party If it could be made really to fall upon the mulcting party, it would be good But I think that that is impossible It would be an unsafe principle to assume that on the whole the burden of dowry on a party is neutralised by having an approximately equal number of brides and bridegrooms If that were realised, no dowry would be charged A practical difficulty would be to ascertain the amount of dowry The tax will be easily evaded The amount of cash that passes is even now kept unknown and is only guessed Ornaments and other things can easily change hands before or after marriage Moreover, in a country where a woman has no right by inheritance, a marriage dowry would be good, only if it could be made her *stridhan* property. The ornaments which form an important part of dowry are so, and therefore should not be taxed Finally, the proposal may lend colour to prejudices against the Government as attempting to regulate and interfere with social customs which are at least apparently supposed to be based upon religious sanction I doubt also whether the probable yield from the tax will be worth all this

(iv) *Vide* answer to Q 87.

(v) An export duty is always a danger To the cultivator it is so as is shown in answer to Q 97 Twenty five per cent is an absurdly high tariff even for protective purposes The report of the Indian Fiscal Commission also does not support an export duty Such a duty will only divert the natural division of crop soils leading to greater area under rice, the competitor of jute At one time we thought that saltpetre could bear a heavy export duty, we levied it and lost the trade altogether The export duty on hides and skins requires reduction and not increase as the condition of the trade shows The marriage duty as proposed is wrong because of the answer to Q 120 (iii) and because the specific duty will bring inequality in the tax in its incidence upon the rich and the poor.

(vi) If this is meant to be a substitute for the land revenue only the objections raised in answer to Q. 120 (i) do not arise But I fail to see how this will improve the situation The burden of the land revenue will be distributed through this tax and the distribution can only be less certain than that of the incidence of the land revenue This will not exempt the agricultural income below a minimum This will be a tax on movement of the output beyond a certain radius, therefore, there must be an infinite number of inland customs circles with every agricultural holding as its centre Also this will be in the nature of an export duty which is objectionable in principle

Q 121—Yes, except the last sentence Will the cost of administration be small? Almost every cultivator grows a little tobacco for his own or local consumption. Also *vide* answer to Q 23

Qs 122 and 123—I think that the most useful tax would be the one based on Q 122 (2), provided that the cost of assessment is not too much (1) will levy equal duty on good and bad tobacco, which is unfair (3) will be most objectionable as creating a monopolistic organisation (4) will be as costly as (2) but, I believe, not as effective (5) will be more costly than (2) (2) is also followed in the case of opium and salt at present

Q 124—In view of the fact that tobacco is grown very widely in India on small plots of land and consumed as widely in some form or other, any fixation of the minimum area will hit production and therefore consumption and the trade more than the revenue obtained If the cost of collection be too great, I would exempt, from the tax, areas below a certain size This will tend to

fractionisation in tobacco cultivation though not in holdings. But there seems to be no practicable remedy for this anomaly. The country is too vast for the French system There will be too high cost in maintaining a very large number of curing premises if the English system be adopted.

Q 125—*Vide* answer to Q 122 (1) There must be gradation according to quality Otherwise the operation of the tax will be most unjust.

Q. 126—No.

Q 127—No But by negotiation the attempt may be made to fix a tobacco tax which will be imposed also in the Indian States This difficulty is inherent in all inland taxes imposed in British India and not one peculiar to tobacco.

Q 129—If it is a tax on consumption I see no reason why there should be any such exemption Other consumers of tobacco, with equal or less income, *e g.*, the labouring classes, will pay the tax while the grower would escape.

Q 130—The rate, if fixed *pro rata*, should be such that the rate *ad valorem* be not at least higher than the *ad valorem* rate obtaining in the customs duty Of course, this can be fixed only approximately. But the imported article should be taxed at least equally, if not at a higher rate than the inland rate when converted into *ad valorem* rate

Q 133—*Vide* answers to Qs 83 and 130 There must be gradations according to value On each grade the *ad valorem* duty should be charged after converting it into a *pro rata* duty.

Q 136—*Vide* answer to Qs 122 and 123 If the system of license be adopted I would have (c), that is licenses to all applicants on payment of a moderate fixed duty The object here is to raise revenue and not to control consumption or reduce it Therefore, wide facilities should be given for sale and any monopoly should be avoided For monopoly price, although theoretically, it may be less than competitive price, is rarely so in practice As every monopolist would try to have the maximum monopoly profit the sale may not be the largest possible amount which alone would bring the maximum revenue to the State.

Q 137—Yes There is no doubt that such change of hands is a fit subject for taxation provided that the duty is not extravagantly high and provided that a certain minimum is exempted The latter need be very moderate, half or less of the minimum exempted under the income tax If necessary the collection of the tax may be spread over some time if the property changing hands be too small to pay the whole tax at once

Q 138—I think that all these methods would be appropriate for India The rate of the tax should vary according to the size of the estate, that is, it should be progressively graduated I would impose this rate on the property before it is divided among the heirs or the legatees or the donees as the case may be. In the last case it should be charged on that part of the property which is transferred without any reference to the whole property of which the former was a part, this will be the only practicable method although, to evade the graduated tax, gifts *inter vivos* are likely to be in parts Over this general tax a special tax, also graduated, should be levied upon those who are distantly related to the deceased owner or the testator or the donor. I would exclude from the operation of this special tax, the inheritors who are members of the same joint family as the owner, except perhaps in the case of the coparceners, that is, when the property passes by survivorship and not inheritance Among the distant relations there may also be graduation according to the distance of relationship with the owner although this will not be of much practical importance Finally, there should be a second special tax over and above the general tax imposed according to the size of the estate, the rate of which should vary according to the amount inherited by each individual heir For this tax I would also have a minimum which will be exempted but I would make this minimum as small as administrative convenience would determine it.

Q 139.—(1) I take the quotation to refer to changes of the rates from time to time and not to the application of the principle of graduation. If so, any change affects and distinguishes all subsequent levy of the tax as against that before the new tax Such inequality arises whenever there is any change in any tax, although the incidence as related to individuals would vary more in this tax than in any other, for this tax would be paid once for all on each transfer of property. But no Government can fix unchanging rates for all time Therefore, although I would not change the rates of this tax frequently, I would not mind a change if the exigencies of Government finance demand that.

(2) Yes. Otherwise there is likely to be uncertainty, evasion, and corruption.

(3) I am inclined to disagree in spite of the very high authority of Taussig Probably the circumstances of India differ from those of the United States of America It seems to me that the revenue from a tax on property should go to the province in which the property is situated. The revenue from the income-tax on the same property should go to the province in which the person enjoying the income resides This principle seems to me to be both simple and efficacious So much injustice, jealousy, and ill-will have been generated by the financial relations between the Central Government and the Provincial Governments that I would not create a new source of trouble by having another very important tax which is to be collected by the Central Government and distributed among the Provincial Governments.

Q. 140—Of the systems given in Appendix P I would adopt the English system as simple and rational In Legacy duty and Succession duty I would add a fourth gradation which should be the last but one, *viz.*, any member of the joint family other than the first and the second, and I would put the rate of the tax for this item at 7½ per cent.

Q 141—(*a*) seems to be the only rational application of the tax The death affects that property and nothing else should be charged (*b*) will be very unjust The managing member is and ought to be an elderly member of the family. This means that the whole property will be paying the tax every ten years or so on the death of this elderly member

Q 142—I entirely agree The revenue from the larger estates can easily bear any cost of collection which may be entailed by setting up a new machinery for that purpose

Q 143—*Vide* answer to Q 137 An exemption minimum is necessary Also the tax should be levied upon the share of the deceased and not on the whole joint property, thus providing for the objection of Sir James Stephen If it were possible to take account of the number of heirs of the deceased and vary the tax inversely as the number, especially for property up to the value, not income, of a certain fixed amount, I would have that But this may bring about too much complication as in France If so, I would fix the minimum for exemption to the value of a higher figure than Rs 15,000 which I would otherwise propose

Q 144—I think that it would not be practicable to tax movable property other than stocks and shares. Bank deposits may be taxed but in India it would mean a great discouragement to small deposits In view of the great need for banking development in India I would not tax bank deposits Hoard, whether cash or kind or ornaments, cannot be taxed without having recourse to means which will be of an inquisitorial nature and which will be very much resented Also there is bound to be evasion on a large scale, and the tax will, therefore, be a tax on honesty

Q 146—I would have the same exemption as in England, *viz*, Rs 1,500, for, although the standard of living is higher in England, the joint family system throws more dependants upon the same income and neutralises the difference Also *vide* answer to Q 143 If a sliding scale is introduced on the basis of the number of children—sons and unmarried daughters—the minimum may be low Otherwise it should be comparatively high

---

Dr. Basu gave oral evidence as follows :—

The President Q—You are Vice-Principal and Professor of Economics, Holkar College?

A—Yes

Q—Where did you learn your economics?

A—In Calcutta

Dr Hyder Q—In reply to Question 13, you say you would rule out (*a*), *i e*, a bare return on the capital invested

A.—Only in exceptional circumstances would I have (*a*), because, if it is a commercial undertaking by Government, they ought to charge at least commercial profit, and if it is an undertaking the proceeds of which are widely consumed

in the country, I think that a monopoly profit may be charged without much harm to the consumer.

Q—Where will you place canals here?

A.—I would place them under (*b*). As I have said later on, in connection with water charge, if you want any particular area to be developed, during the period of development I would even charge something less than the bare cost When the land is able to bear a commercial profit, then Government may charge a higher rate

Q—Do you have economies in large scale production in such undertakings as canals?

A.—I haven't got any knowledge of the working of canals, but I should not think that large economies could be obtained that way.

Q—If an undertaking which has been so far under private enterprise is taken over by Government, such as railways, could there be economies?

A—In railways, experts think that there is a great deal of scope for economy.

Q—What economies could a railway administration effect?

A.—I cannot give you details If Government works a monopoly, there are likely to be economies on large-scale production.

Q—What do you mean exactly by the statement in your written evidence "In case (c) also it will appear only when the quantity at which the rate of monopoly profit multiplied by the quantity is appreciably less than the quantity *in cases (a) and (b)*"

A—There is a mistake there, after the word "quantity" the words "is largest" are omitted. The idea is that the monopoly profit must be placed at that point where the rate of the monopoly profit multiplied by the quantity sold is the maximum That will give the net monopoly revenue to Government.

Q—What has that to do with (*a*) and (*b*)? That will be his maximum monopoly profit

A—If that quantity can be sold at a commercial profit also under (*a*) or (*b*), when approximately the same quantity is sold, I do not think there is much hardship on the consumer The consumers' surplus will be reduced by the least amount if the quantities in the two cases are not very different The profit will be to the extent of the economies on large scale production, whereas the loss to the consumer will be the minimum, because the total quantity sold will not be much reduced

Q.—Q 14 You don't think there is any element of taxation in the income from Posts and Telegraphs?

A.—Not much, I should think.

Q—The rates were ½ anna for letters, but they have been put up to one anna

A.—The element of taxation will come in, as I have defined it, only when the price which the consumers are paying will be much higher than the price at which ordinary commercial undertakings can sell. When the consumer is paying a price which he would have normally to pay under any circumstances, I would not call that taxation. But when the Government charges much higher than the price which the consumers could get otherwise, I would call that taxation.

Q—Can you calculate that in Posts and Telegraphs?

A.—It is very difficult, because we have not got a rival producer.

Q—Compare the cost of well irrigation as against canal irrigation.

A—The two industries are entirely different. But as well irrigation is rather a cruder form than canal irrigation, I should think the cost of production cannot be compared by working the different industries.

Q—Profits on coinage or exchange; you don't think there is any element of taxation in this?

A—In the case of coinage, unless there is deliberate inflation and thereby a loss is inflicted on the producer, I do not think there is any element of taxation.

Q—You refer to the profits on coinage over and above the seigniorage charge Don't you think that the whole of it is seigniorage?

A—There is the cost of metal

Q—You make the statement "over and above the seigniorage charge"

A—It is usually a charge which is very small The difference between the face value and the intrinsic value is called the seigniorage

Q—And that constitutes the whole of the seigniorage charges?

A—It is usually spoken of when there is a free mint, which is not the case here

Q—Question No 15, water-rate You would recommend a plan based upon a proper combination of the principles discussed in (1), (2) and (4) of your reply to the questionnaire?

A—Yes If Government want to tax, the rates should be slightly higher than the cost of the commercial profit

The President, *Q*—In dealing with principle (3), all that is suggested is the proportion of the combined output of land and water Your objection is that it would be taxing improvements The question does not suggest that Just as you exempt improvements on the land, so you would exempt improvements on land *plus* water.

A—Then I have misapprehended the question What I thought was that the proportion will be taken by taking the output only

Q—Just as in the case of unirrigated land, the land revenue is based upon 50 per cent of the normal output, so in the case of wet land it would be 50 per cent of the normal output of the irrigated crop

A.—That is exactly what I have suggested

Q—Take question No 16 You take a betterment tax at about 50 per cent of the increase due to water, excluding improvements?

A—Yes

Q—Supposing you have a piece of dry land which is giving you a return, say, of Rs 10 an acre and with water it gives you Rs 30 Your normal land revenue as dry land would be Rs 5 and as wet land, Rs 15, but at the same time the sale value of the land increases from, say Rs 100 to Rs 1,200 Would you also take part of the sale value in the shape of a betterment tax?

A—The sale value will increase as the result of improvements also I have mentioned some of the improvements the effect of which cannot be calculated definitely. So in the case of a tax on water, I want to leave a big margin, so that under no circumstances can the result of improvements be touched

Q.—You would not object to a betterment tax in addition to a share of the annual increment?

A—It will be over and above that

Dr Paranjpye. *Q*—Won't you be taking betterment tax twice over? The increase in the net value determines the increase in the price of land, so, the betterment is allowed for by an increase in the net yield You are only taking half the increased net yield, leaving apparently to the owner the capitalized value of the remaining half and then you propose to take also a part of the second part that is left to him

A—The betterment tax cannot in fact be separated from the betterment tax which you charge in the shape of land revenue That betterment tax must be taken in connection with land revenue.

Q—After having taken an increased amount on account of the increased net yield, you still want to take a portion as a betterment tax as the result of the water supply?

The President—May I put it this way? You put on what the traffic will bear and that is very much less than half the increment It will not bear straight off a large annual charge, but it can well afford a part of the capital cost in the shape of a terminable annuity.

A—It seems that I have not exactly under
ment tax If it is going to be a terminabl
are made after the termination of the annuit
thought it would be something permanently
ernment as the result of improvements on the land

Q—The position would be that if you take even a half share of the increased profit from the water you would take such a large sum that the raiyat would object and you would not be justified in putting it on, but you can quite well take a share of the increased value of the land and credit it to the capital cost of the scheme without raising the same opposition

A—That will be charging the same amount, only spreading it over a long period

Q—They would really be separate taxes Suppose a man sold his land, he will probably pay the betterment tax out of it

A.—That will ultimately fall upon the land

Q—The way the suggestion arose was this. You make the first condition in putting up irrigation works, that they must pay their way. You find sometimes that they will not pay their way at all You can only put on a very low water rate to start with, but while you can get only a very small amount out of that, there is a very large increase in the value of the land

A—I would not have any objection to have a betterment tax after that, but that will be only an exceptional case

Q—The water rate charge is really very low in proportion to the increase?

A—The water rate may be increased

Q—Sometimes it is a matter of expediency not to increase the water rate

A—From the point of view of principle, it does not matter whether it is one tax or two different taxes My idea was that it was only one tax.

Dr Hyder, Qs. 19 and 20—You do not think that it is possible in the case of municipalities to divide rates into those which are beneficial and those which are onerous?

A—My idea is that we cannot make a distinction in principle with regard to that

Q—Take the case of a house rate That is spent on purposes beneficial to the people who own houses So they cannot say that it is a rate for which they get nothing

A—Can you make a distinction in principle with regard to the tax?

Q—Don't you think that the comforts secured do make the distinction right?

A—Not in the case of local and central taxes. Only when taxes are earmarked for certain purposes, can you make a general classification about the benefits and sacrifices?

The President. *Q*—You don't object to earmarking?

A—No, what I say is that these must also be taken into account in finding out the incidence of taxation

Q—Let me take an actual instance Supposing you extended the drainage system to half of a municipality, and you imposed a charge for drainage on houses in that half of the town, would you count that for the incidence on the whole town?

A.—The question is exactly the same as the Posts and Telegraphs If a new post office is opened in one place, can we say on the same principle that the people of that locality should pay the taxes for this particular purpose?

Sir Percy Thompson *Q*.—You are making everybody pay for the Post Offices

A.—For almost everything the Government is charging a price. Taxation is, so to say, a price which Government are charging and I do not think you can make a distinction for specific benefits rendered

The President *Q*.—There is a difference in degree

A.—I allow for the difference in degree, but not for the difference in kind.

Q.—Supposing you live in a town and there is no electric light or gas there and you have to go and use kerosene lights, now they start an electric light scheme, instead of charging by meter, they simply impose a rate to be paid for the use of the electric light and you go and pay to the municipality the rate instead of going to the shop and buying oil, can you say that the tax in question is increased by the fact that you pay something for electric light instead of going to the shop and buying the oil?

A.—I do not feel like agreeing, because almost every service is taxed by Government I would not call it a price merely and not a tax

Q.—Suppose you find that the rate per head in a certain town is far heavier than it is in another town, say in town A, you get electric light, drainage and water and the taxation is low, in town B, you get nothing Although the incidence is higher in town A, the rate of taxation is not higher, because you get certain benefits?

A.—Yes, you get greater service and pay higher for that, but I would make a distinction in incidence

Q.—Supposing for instance in Nagpur you have two large mills and as a matter of agreement with the owners of the mills the Municipality agree to establish additional water works and put a special rate on those mills, would you say that that increases the incidence of taxation to the inhabitants of the town?

A.—No, the inhabitants of the town are not charged at all.

Q.—Carry that a little further and suppose that one side of the town is supplied with electric lights and the other is not. Is the rate to be applied to the whole town or only to that half which gets the supply?

A.—In that case, only half the town because the tax is earmarked.

Q.—Do you distinguish that from the case of the Post Office?

A.—Yes, simply because the one is earmarked and the other is not.

Dr Hyder *Q*.—In your answer to Q 21, you say that "to the consumer it is the loss of utility from the reduced portion *minus* the original price." I do not understand what you mean by this. Suppose you have a commodity and you impose a tax, what follows?

A.—The price goes up, and if the demand is elastic, the quality consumed becomes reduced, and the loss to the consumer is the utility from the reduced portion *minus* the portion which they would have to pay for.

Q.—The loss to the consumer will be after the imposition of the tax?

A.—The utility on the reduction in the quantity consumed *minus* the sacrifice which they have to make for that reduced quantity, *viz*, the original price of that article

The President. *Q*.—How if the article has no utility?

A.—Such an article hardly forms an article in economics. When the drunkard drinks, you say he has a utility.

(At this stage the witness explained his meaning more clearly to Dr. Hyder by means of a diagram).

The President Q—These depend on the assumption that the consumer makes the best possible distribution of the expenditure.

A.—You have to assume that; we know the consumer does not do it.

Dr Paranjpye Q.—In your answer to Q 24, you say that a tax upon entertainments will certainly be welcome, for such consumption can never be addiction in the sense in which tobacco and intoxicating liquors are Is that quite a correct statement? There are a large number of people who cannot do without cinemas Deprivation of the cinema is quite as much a hardship as deprivation of tobacco or intoxicating liquors to us.

A.—I do not think it is such a serious addiction that people will, for example, give up their food and go to cinemas. The intensity in the one case is much greater than the intensity in the other.

Q—Tobacco is optional?

A—It is not exactly optional

Q.—Optional taxes would mean taxes on those articles which are not necessary for physical existence

A—I would define an optional tax to be one on an article the consumption of which may be reduced without any inconvenience

Q—Not inconvenience on the part of a particular individual, but on the part of an ordinary average individual

A—I had in mind the cases of factory hands, labourers.

Q—There are many women who go without sufficient food, but have jewellery

A—Yes

Q—Regarding a tax on railway tickets, you say it is usually a fixed sum

A—A few years ago there was a terminal tax in Calcutta; that was a fixed sum for every ticket

Q—Like a pilgrim tax for instance?

The Maharajadhiraja Bahadur of Burdwan Q.—It is a uniform tax, irrespective of the different classes from whom they are levied

A.—Yes.

Dr Paranjpye Q—Could you have a different tax for different classes of railway passengers?

A.—I have given three objections to a tax on railway tickets

The President Q.—A pilgrim tax is not really a tax on travelling, it is a tax imposed by a place of pilgrimage for the benefit of that place, more or less in the nature of a poll tax A tax on travelling levied in European countries is based upon distance and it is levied at every station as a sort of surcharge

A.—If it is levied at all stations, it will be better as a tax; but the general budget will be encroaching upon the railway budget

Q—If it is levied as a tax, it won't go into the railway budget. I don't think the question of the separation of the budget arises unless you impose a tax indirectly by raising the fares

A—That will be really raising the fares

Q—If you are going to put a tax on travelling, you could do it by a direct tax, not by raising the fares in which Government have a controlling interest.

A—Ultimately it comes to the same thing, because the increase must react upon consumption and to the extent that consumption is reduced the railway budget suffers

Q—How does the railway budget suffer?

A.—Their income will be less. Suppose the general budget imposes a very heavy tax on railway tickets, the travelling public must reduce their demand for railway service

Q—The amount of travelling done will be less?

A.—Yes, and therefore the income of the railways will be less; thereby the railway budget will be affected

Q—You say the Railways are making a large profit over and above the cost of working.

A—They must be making some profit; even if they don't, their loss will be further increased by the imposition of this tax

Q—Their expenditure will also proportionately fall

A—Not immediately, especially in large scale production

Q.—In answer to Q 25, you say that no class can be definitely isolated who do not consume liquors?

A—It is very difficult to find any class which can be otherwise taxed

Q—That was not the idea at all Don't you think that a class which abstains is entitled to the benefit of its abstinence?

A.—By not consuming it, it will get its benefit

Q—Is it entitled to reckon that as part of its burden?

A—That will be exemption from burden.

Q—Supposing the whole of the revenue of a State is derived from taxing people who gamble and that the inhabitants of the State are prohibited from going into the gambling house, have they a burden of taxation?

A—No I do not think that will be called a burden of taxation

Q—Supposing half India were abstainers and the other half large consumers of intoxicants and the whole of the revenue derived by the State was from the tax on intoxicants?

A.—My idea was that, in order to bring about equality, a special tax should be imposed upon the class who do not consume intoxicants

Dr Hyder *Q*—Do you think that every member of a community should pay some sort of tax?

A—On principle, no But in practice it is extremely difficult to separate that class, especially in respect of indirect taxes For example, in India particularly, we cannot think of anything out of which a substantial revenue can be got unless it is more or less a necessary of life

Q—Take the case of people who use kerosene, cloth, etc Don't you think it is possible to tax these people?

A—They will be taxed, that means a greater burden will be imposed on the poorer class, if you tax a necessary thing of life There are too many necessaries of life which are consumed by the people which are taxed

Q—In a country in which the people do not consume any luxury, how else can one get something out of them?

A—I do not object to some tax on necessaries, but on principle I think that those persons who do depend on a person who earns something should be excluded In the case of indirect taxes, it is impossible to apply this test

The President *Q*—You object to direct taxes, such, for example, as a capitation tax levied in Germany, France, Switzerland or the United States, because they have a bad odour about them?

A—In India they have a bad odour about them.

Q—Which Indian tax would you include as having a bad odour. The *thathameda*?

A.—I know nothing about it

Q.—Capitation tax?

A.—I have heard only about the Burma tax

Q—What do you say to the chowkidari tax?

A—It is for protection.

Q—Is it not of the nature of a capitation tax?

A.—I wouldn't call it so; in that case, the Army expenditure should be capitation tax

Q—Surely, the manner in which you spend the money has nothing to do with the nature of the tax

A—All taxes fall upon persons.

Q—How would you define a poll-tax?

A—A tax which is paid for being an individual; simply because a person is born and lives in a place, he would have to pay it Usually all taxes are levied through certain articles, except income-tax. Ultimately these fall upon individuals

Q—The chowkidari tax is levied on a family.

A—If that is so, it will be unfair unless you take into account the income of the family

Q—How would you regard a profession tax?

A—It is really part of the income-tax. It is separated from income-tax by a very little margin.

Q.—Is there not a limit for profession tax?

A—It is a small tax which probably does not affect many. If it is a poll-tax, it will affect all persons in the country, irrespective of their income

Q—You might have a poll-tax, but you might exempt certain classes from it

A—Even then, it will be a little unfair, if you don't take the income of the family into consideration. A family consisting of 20 heads has to pay it, as well as a bachelor.

Q—Does that arise under the chowkidari tax?

A.—I have little experience of the chowkidari tax.

Sir Percy Thompson Q.—Your answer to Q 33 *re* Income-tax practically means that you would reduce the limit to Rs 1,500?

A—If there is urgency.

Q—If the yield has to be increased, you would make the exemption Rs 1,500. levy the tax as it is up to £1,000, increase it between £1,000 and £10,000 and leave the gradation as it stands above £10,000; is that roughly what it amounts to?

A—My idea was that there should be increase below 1,000 and above 10,000 also If the limit is reduced from 2 000 to 1,500, there should be an increase tax below 1,000 and above 10,000, there should be a greater increase between 1,000 and 10,000

Q—You want to stiffen up the rates between 1,000 and 10,000, while increasing them all along the line

A—Yes.

Q.—Your reply to question No. 35 You would include the rents of land and withdraw the exemption in favour of agricultural incomes so far as it applies to rents.

A.—Yes

Q—You say that the difficulties in the case of unearned incomes are ascertaining their exact amount I think it is easier in the case of unearned income than in the case of earned income What is your definition of 'unearned' and 'earned' incomes?

A.—That which has not been earned by the efforts of the owner is 'unearned' income. Suppose he has to make an improvement in the land and a well is sunk as a result of that, there is an increase in income

Q—Surely that is the result of investment of capital?

A—Yes, that is improvement.

Q.—Would you treat my investments in the debentures of a public company as earned income?

A—Partly as earned, in the case of companies which represent productive enterprises, because you take the risk of losing your investments also

Q—That has never been adopted by any other country, the definition adopted in England is earned income is the income which you get by your personal exertions, *unearned income is the income got irrespective of any personal exer*tion on your part

A—That is practically the definition which I adopt also

Q—When you make an improvement on the land by sinking a well, the additional money comes to you without any personal exertion on your part

A—Under "personal exertion" I would include enterprises where you take a risk

Q—How could you possibly work that?

A—In the case of land, we cannot separate the two Simply because some person is getting income from two different sources, it does not mean there is no difference in the functions

Q.—If I invest money in Government securities, how would you treat my income, as earned or unearned?

A—That is unearned income, which I would tax more heavily

Q—Then you would have three rates, one for earned, one for unearned and one for money invested in productive enterprises

A—That is so

Dr Hyder Q—Is investment in land a productive enterprise?

A—From the point of view of the investment it would be a productive enterprise for me

Q—I see from your answer that you refer to a discouragement of savings. Some economists have urged that you should pay a lower rate if it can be shown that the income of the year had gone back into the business

A—Yes

Sir Percy Thompson Q—I think we are muddling up income and increment. This is a question of taxing income which accrues to a man from year to year. Supposing I invest Rs 10,000 in a commercial undertaking and the first year it produces 5 per cent *i.e.* Rs 500, you would tax that as unearned income Suppose it afterwards becomes more prosperous not from anything I have done, but it proceeds to pay 10 per cent *i.e.* Rs 1,000 a year how are you going to tax it?

A —I would not make any distinction, because the increase is merely due to the chance I have taken Whatever may be the income, I would put that down as due to my enterprise

Q—Instead of investing in a public company, I invest Rs 10,000 in land and it pays me a rent of Rs. 500 for some years; then suddenly owing to a rise in prices, I am able to charge higher rents and I get an income of Rs. 1,000 for that land

A—If it is as a result of rise in prices, it will be unearned income

Q—My income from the investment in the commercial company may have increased from Rs 500 to 1,000 owing to a rise in the price of the commodity.

A—But I took the risk that the company might fail

Q—But I took the risk in the case of land also Take, for instance, the fact that in England between 1848 and 1894 the price of land did go down, the price of produce went down and rents went down I cannot see any difference between two cases There is as much risk in buying land, as the price of land is not bound perpetually to rise

A—It has been so in India at any rate

Q—It has not certainly been the case in England

A—The result of settlements show that at every settlement there has been an increase

Sir Percy Thompson *Q*—It may be historically true so far as India is concerned, but it cannot be so everywhere If the land depreciates the rent will also go down?

A—I don't think so

Q—I am not talking about the land revenue but I am talking about income-tax Is not income-tax to be charged on general profits?

A—In the case of agricultural incomes when the landlord does not do anything for the improvement of the land and yet there is an increase in the income from the land I should think it is unearned and can be taxed

Q—You are going to tax on three rates *i e*, rates applicable to incomes which are earned rates on industrial enterprises, and there is to be a still higher rate on increased incomes which may be derived from rise in the value of land?

A—You can tax any income, it may be derived from any source; it may be even from houses

Q—But not from dividends?

A.—Well, there may be a portion of the unearned income here also, but it is very difficult to say, almost impossible to say, what the unearned income is in this case, but in the case of houses or lands, *i.e.*, of immovable property, it is much easier to find out what it is.

Q.—Suppose I built a town and put houses in it and I spend a large amount of money, say, ten thousand rupees on each house and tenants may not come and I may have only a low rent But in the course of time when the population of the town increases I may be able to get a decent return on my capital. How would you tax that?

A.—Well, it must be found in comparison with any other industry. In this particular case as the result of the circumstances beyond the control of the owner of the houses if the price of the houses go up, I would call it unearned. When the income is derived out of the normal conditions of the town, then it is earned I make a distinction only like this Take agricultural land which is close to the railway line with the result that it gets a higher price Here the value of the land has increased simply because of the opening up of the railway line. I would certainly say that the income over and above the normal price is an unearned income

Q—I entirely agree with you here, but it is equally true in the case of commercial concerns also.

A—I think in the case of commercial returns it is almost impossible to distinguish between the earned and unearned incomes, but in the case of land or any other immovable property, it is much easier.

Q—You say that in the case of "sums shown to have been invested in productive enterprises" the tax should not be on the sums but on their incomes Supposing you have got an income of ten thousand rupees a year and instead of spending ten thousand rupees, you save four or five thousand and invest it in any productive enterprise, why in taxing the income of ten thousand should you put less tax on the four thousand or five thousand which you invest in the productive enterprise?

A—I do not mean that. When the whole income has been earned, then the ordinary income-tax will be charged on that income and the portion of the income that is spent and the portion that is invested will be taken into consideration. When it is invested, then, on the income of that he will have the tax

Q—Would you not have any reduction in the tax, as it is meant to be an encouragement to investment?

A—Yes, from that point of view I would make some distinction

Q—You would not advocate making any allowance for the number of persons supported?

A—I would not advocate that Particularly in the case of joint families, it is worse than useless In a joint family one has to feed not only his relatives but also his servants.

Dr Paranjpye *Q*—Supposing under the Income-tax Act we lay down a rule that a certain abatement is to be allowed only for wife and children you would abide by that?

A—That will be very hard for joint families There are brothers and other relatives who ought to be supported

Q—I think brothers must earn?

A—But there may be younger brothers who ought to be maintained If any exemption is to be made, it should be made also in the case of dependants like widows

Q—You mean to say that people who are actually either owners or potential owners may be allowed the exemption So also the head of the family, his sons or their sons might be allowed and not the second cousins and other relatives They do not deserve any concession?

A—Of course they do not deserve any concession, but there should be exemption in the case of widows who are more dependant than a son or a brother

Q—I quite agree that there may be some hard cases But is it not now a days the tendency, at least among the educated classes to discard this joint family system Practically the income-tax payers are of that type The joint family system has got special reference to landed property and not *otherwise When there is no question of landed property there is no question* of joint family.

A—I quite agree with you

Q—If that is so, the joint family system would not have very much significance?

A—Yes

Q—Then it is quite sufficient if you take wife and children into consideration?

A—Yes

Q—In answer to questions Nos 38 and 39 you have given us certain figures from Bengal Can you tell us where you got them?

A.—I suppose I got them from my notes, made perhaps out of the administration reports

The President *Q*—Is it from the Indian Year Book?

A—It may be; I do not remember it now.

Q—Have you examined Messrs. Shah and Khambata's estimate and come to any definite conclusion?

A—No, I have not examined the estimates given by Messrs Shah and Khambata, but I think it is too optimistic. I should think even my own estimate to be somewhat optimistic I would put this figure only as a maximum. I have already said my estimate is a pure guess.

The Maharajadhiraja Bahadur of Burdwan *Q*—You are in favour of imposing income tax on agricultural incomes, would you be in favour of imposing income tax over and above the land revenue? Some witnesses have advocated this as a sort of substitute for land revenue, I want to know exactly what your opinion is!

A—I should think it should be over and above the land revenue This will be out of the profit of the business just as an ordinary person pays out of the profit and out of that profit he will have to pay this income tax after paying land revenue, because land revenue is not taken out of the profits

Q—Then you will have two taxes, one by way of land revenue and another by way of income-tax?

A—Yes One is by way of taxing nature and the other on the income from personal exertion

Q—It might also contain an element of economic rent?

A—Yes But I think there will be some more income which will be still available for the person

The President *Q*—In answer to question No 42 regarding the Indian system of accounts, you say, "the suggestion of the Indian Industrial Commission that Indian business men should be compelled to keep accounts on the English system is absurd" Can you show me exactly where you find this statement in the report?

A—I am afraid I cannot locate it now, but I shall let you have it later on

Q—With regard to question No 53, you say, that the basis of comparison implied in the question is wrong You also say that we must take the standard of living and other demands made by taxation into consideration in arriving at any comparison Of course we mean that you must take all the circumstances into consideration

A.—At least I have not considered all these points to arrive at any definite decision

Q—What do you mean by saying that "as a rule, the lower the income is, the higher is the cost of necessaries"?

A—I mean to say the proportion of the cost of necessaries of life to the income is greater.

Q—You say the idea of imposing a protective duty to enable India to be self supporting is wrong How?

A.—That is a very big question. I do not support the protective duty much.

Q—But the position is this You had during the war a salt famine in Bengal. The salt could have been quite easily supplied from Madras, but as long as the foreign salt could compete with advantage, it was not worth while to produce the salt in Madras.

A—You mean to say the cost of production is higher.

Q—It is not that. The Madras people consume a different class of salt from the Bengal people The Madras factories have to manufacture a totally different

class of salt for the Bengal consumer compared with the local consumption. They cannot afford it as long as there is foreign stuff in the market. The idea is once the trade establishes itself, then the supply can be continued at a cheaper rate

A.—If it is really so, I have no objection, but in some cases the cost of production is permanently higher.

Q—Would you have any objection if there is a protective duty for a short term of years in order that the trade may settle itself?

A—I have no objection In the case of this infant industry, I won't have any objection

Q—Of course it is not a very infant industry but it is an ancient industry supplying the whole of India except Bengal The point is that Bengal likes a particular kind of salt and gets it at a very cheap rate

A—I think it is not a matter for Government interference

Q—You don't think there is any disadvantage in the present system?

A—I don't think so

Q—What happened was this During the war some enterprising people started a salt factory and they had pretty good sales, but as soon as the war was over, all these people who put up plant to double their production were ruined

A—We cannot anticipate such extraordinary windfalls now and then

Q—Then you do not like to make the country self supporting?

A.—At least not in this respect As far as I remember we had this salt famine for the greater part of the war and it is only towards the end of the war we began to get this Madras salt The people in Bengal do not want to buy this salt because they want the white salt as they have got a taste for it

Q—You object to the sale of salt by weight in areas in which it is now sold by measure? Have you any experience of what is known as the process of sifting? It is practised solely for the purpose of increasing the trader's profit In other words they gain by getting large crystals Do you think it is right?

A—I don't know if it brings any measure of hardship to anybody Government get the same revenue

Q—The point is that if there are bigger crystals sold, the purchaser gets less salt

A—Why, if the crystal is powdered the quantity will become larger

The President *Q*—No It becomes smaller The crystal is a hollow thing

A—Then how is it, the sellers who are not monopolists do not bring down the price by competition

Q—Because there is a close ring

A—Then the Government should attempt to break down the ring

Q—You think that denaturation of salt is too costly?

A—Yes

Q—You are opposed to total prohibition and think that the choice should be left to the individual consumer?

A—Yes, that is my personal idea

Q—Do you think that a tax on advertisements would yield anything material? You say that the revenue is likely to be good

A—Yes, because in the big towns you find there is a good deal of advertisement

Dr Paranjpye. *Q.*—Would you also tax newspaper advertisements?

A.—Yes; if there is such a tax, it should be on newspaper advertisements also

Q—You think that the export duty on hides requires reduction?

A—Yes.

Q—You do not agree with Vakil who wants to increase it?

A—No, that seems to be absurd Coming from Bengal I most strongly oppose that view

Q—But jute is a monopoly.

A—But even monopoly has also got a limit. Even now substitutes for jute are being tried in South and Central America and if these experiments come out successful our trade will go. Another thing is this: if you impose 25 per cent duty on jute and keep your rice export duty at 3 per cent then you will be converting the jute lands into rice lands.

Q—The duty will be paid by the consumer abroad

A—I do not think so But the consumption will go down If there is such a heavy tax, the quantity demanded must fall

Sir Percy Thompson *Q*—Is there not also the danger that if you increase the price too much the foreign consumer will make more intensive efforts to find a substitute?

A.—Yes *There will be a reduction in consumption and the demand from* India will fall and the price of jute will go down in India Then jute lands may be diverted to rice cultivation When there are two rival productions, if you tax one of them, it is likely that after a time it would be more profitable to grow the article which is not taxed

Dr. Hyder *Q*—But that would happen when the cultivator pays out of his pocket

A—The tax may not come from his pocket But the effect of the tax comes upon him I will make a distinction between the two—the incidence and the effect

Q—What is the nature of the distinction?

A—Let us suppose we have an import duty and that import duty falls upon the consumers If the demand for the article is elastic, then the consumer will reduce the demand and the incidence of the tax will fall upon the consumer. But because he has reduced the demand, the effect falls upon the producer

Q—It is partly forward and partly backward; I agree there But suppose you have got an article which is very much in demand abroad but there is no substitute. Then it seems that you have got a clear case where you can compel the other people to pay the tax.

A.—If you impose the tax, that tax will be payable by foreigners But the foreigners will reduce their consumption, the amount of our sales will be reduced and the price in India will fall.

Q—It depends upon the nature of the case Suppose we possess a monopoly in that article and the demand is inelastic?

A.—I will not consider the demand for any commodity to be so inelastic that even at high prices, there won't be any effect And even for monopoly, as I have already stated, there is a limit.

Sir Percy Thompson. *Q*—In the last paragraph of your answer to Q 97, you say 'In this connection, I should especially point out that—I may be permitted to use strong expressions since agriculture engages such a large portion of the population of India—the craze or fad for developing manufacturing industries tends to increase the price which the cultivator pays for his consumption'. Are you against the policy of commercialising?

A.—Not against that But it is attempted in some quarters at the cost of cultivation I would strongly oppose that. I would rather go without manufactures than have this state of things Industries ought not to penalise the cultivator

Q—In what way is he penalised?

A.—By having export duties; export duties have been suggested on oil-seeds and cotton

Q—It is only to that extent?

A—Yes

Q—But surely it is very advantageous to have an alternative source of employment to which agriculturists can turn when the pressure on land becomes too great.

A.—I very much like to have manufacturing industries provided they do not inflict any injury on the cultivator

Dr Hyder Q—When the products of this country are manufactured here, surely they will have a higher national dividend than when they are sent out.

A—Yes There is no doubt about that But I am talking merely about that intermediate stage My objection is mainly against the protective tariff By imposing this tariff on our goods we raise the prices of the articles consumed by the cultivator

Dr. Paranjpye Q—You will never have industries in any State unless you begin with some help from the State

A.—I would give help There are many other forms of protection as well besides the protective tariff There are bounties Government may give facilities in respect of land There may be concessions with regard to railway rates and so on

Q—In whatever way you give help, ultimately it is the cultivator—cultivators forming 75 per cent of the population—that is affected

A—Only to a certain extent, but not to the whole extent Again, raw materials taken towards the ports are favoured very much This discrimination I would stop at once

Q—That is only an administrative measure When the State takes over the management of the railways perhaps this discrimination will disappear

A.—I do not know There may be bad management

Q—You say that oil-seeds should be freely exported?

A.—I do not say they should be freely exported

Q.—Don't you think that in the larger interests of the country, the oil-seeds should be pressed in the country itself rather than sent abroad?

A—If you are sure of developing the industries within a short time and the benefit we derive is great, I would not object to it very much

Q—Are there not many of these industries without which the country is not self sufficient?

A—In the case of the key industries my objection is more serious to having a protective tariff, because you raise the price and thereby inflict loss on the dependent industries You can give subsidies or do something else which will not raise the prices Of all the forms of protection, a tariff is the least suitable When we protest against the salt duty we mean that the people are very poor

Dr Hyder Q—Now one agricultural expert has said that this country is the most extravagant country in the world, because it allows its oil seeds to go and fertilise other countries This comes of our free trade policy

A—I do not think so

The President Q—With regard to Q 104, do I understand your recommendation to be that in attempting to compare incidence of land revenue you would have to prepare two fractions for each province, one for the raiyatwari people and one for the tenants and the landholders?

A.—Yes.

Dr Hyder Q—I want to know what you exactly mean with regard to Q 112

A.—If a tax is imposed upon the owner and if there is very great demand for houses, then what really happens is that the tax falls upon the occupier because the owner can get it from the occupier. From the economic point of view, it means that the owner is relieved of his tax.

Q—The tax on the house resolves into two—one on the area and the other on the house The tax imposed may be so devised that it falls on the ground rent and not on the occupied portion Now do you think that the tax on ground rent can be passed on by the owner?

A—In extreme cases, I should think so In ordinary cases I do not think it possible to transfer it to the occupier. But where there is extreme shortage of land, the occupier will have to pay a higher price.

Q—You do not think that a tax on registration of marriages is practicable?

A—I do not think so, except where marriages are already registered

Dr Paranjpye Q—In some communities it is practicable.

A—Yes, in the Christian and other communities where the practice is already followed

Q—You know possibly that in several cities there is a municipal tax on musical instruments used in marriages It practically amounts to a tax on marriages as every Hindu marriage requires the use of musical instruments If you levy a tax of a rupee or two on each marriage, it will fetch a lot of money.

A—If it could be done without compelling them to register marriages, I would not object

Q—It will bring in about 50 lakhs a year at Re. 1

A—Yes, it would not be felt and would bring in a good deal of money, but if you make the registration of marriages compulsory, I am sure people will bring in religious and other questions and there may be difficulty

Q—What would you say to a tax on patent medicines?

A—I would not tax medicines, because we want more medicines

Q—Do you want more patent medicines?

A—If they are good medicines

Q—Have you read the report of the British Medical Association on the analysis of patent medicines in England?

A.—If they are really bad things, they won't have any large sale

Dr Hyder Q—The advertisement columns of newspapers are full of these advertisements and they are very bad medicines.

A.—If it is practicable, I would not mind a tax on patent medicines*

The President Q—What do you say to a monopoly of explosives?

A.—I hardly think I have thought over the question; it can only be by Government.

Q.—You would rather favour a tobacco tax?

A.—Yes

Dr. Hyder. Q—Have they got a tobacco tax in Indore State?

A—No, except when it is exported.

The President. Q—Is it an export duty?

A—Yes, that is more profitable

Dr Paranjpye. Q—During the war time, grain was cheap in the Indore State?

A—That was because export was prohibited

The President Q—Have they got a customs line all round Indore?

A.—Yes

Dr. Hyder. Q—Do you get good revenue from these duties?

A.—I think they get more than 20 lakhs.

The President. *Q*—Is it really a transit duty put on as customs duty where there is a cross-road?

A.—Yes

Q—Do you know anything about the system of the payment of staff? Have you a system called *Katchi* system?

A—The staff are paid in cash; the officers in charge are paid fixed salaries.

Q.—Are the salaries very high?

A.—For the staff they vary from Rs 15 to Rs. 40 At Indore there are officers getting more than Rs 150 and you get practically all the revenue from Indore. It is a big distributing centre for the whole of Central India

Q—You still have a tax on transactions?

A—No, there is a tax on cotton speculation.

Q—How does that work?

A—Whenever there is any transaction, it must be registered; if it is not registered, you cannot claim the money and as the tax is very small, everybody registers They do not get much income; I don't think they get more than a few lakhs of rupees.

Sir Percy Thompson. *Q*—Have you any idea what the pitch of the land revenue is in Indore?

A—About five years ago they had a Committee, I was on that Committee and it was estimated that the rate of land revenue then was higher than in British India

Q—What relation does it bear to the rental value?

A—Slightly higher than 50 per cent of the rental value, but the acreage per head of the agricultural population is more than 2½ acres in Indore, while it is less than 1½ acres in British India

Dr Hyder *Q*—What is the theory they have in Indore, is it the theory of landlordism?

A—There are *jagirs*, as also the raiyatwari system

Q—The land belongs to the State?

A.—The lands are the property of the Durbar; the ruler of the State has other lands in his personal capacity

Dr. Paranjpye *Q*—Your reply to Q 122, regarding the possible means of levying a tax on tobacco You appear to recommend No (2), viz, requiring all tobacco locally grown or imported to be sold to the State, by which it is made up and sold at fixed prices That would mean that you would have an enormous State tobacco industry as in France

A—This method is the only practicable method

Q—What is your objection to No (1), imposing an acreage duty on cultivation?

A—It will levy equal duty on good and bad tobacco

Q—You can very easily have a differential duty when a piece of land produces tobacco of a high quality, and you can have different duties for different districts

A—If that is done, I wouldn't mind, but by acreage duty I understood a fixed sum per acre

Q—It is just possible to have different rates

A—That will take an army of Inspectors

Q—He wouldn't go from field to field, what does it matter if food-grains are cultivated in place of tobacco?

A—In Bengal almost every cultivator grows tobacco for his private use and for sale, and the quality varies a good deal I have not got experience of other places

Q—Would you agree to a system under which the tobacco should not be sold except to licensed vendors who deal in retail tobacco trade?

A—I don't think I would agree to that, because that will create a monopoly

Q.—In the Patiala State there is a monopoly which is working very well.

A.—More money is paid by the people as tax to the licensed vendors than comes to the State.

Q.—The right to sell would be sold by auction.

A.—But once a man gets the right, he would have a monopoly in that area.

Q.—After all it is not a necessity; another time another man will come and bid against him

A.—It is uneconomic from the point of view of principle. He takes more from the tax-payer than what goes to the coffers of Government. If Government directly takes it over, the whole of the profit will go to it.

Q.—It will be an enormous business to manage, practically you have to have a tobacco officer in every village.

A.—His expenditure will also be covered.

Q.—After all, Government machinery spread over a whole country would be very much more expensive than licensed vendors who might sell tobacco in different grades of preparation

A.—There are village officers and Government officers to do the work.

Q.—There will be too much corruption, a private man will do it very much better

A.—This question should be dealt with from the point of view of productivity

The President *Q.*—You are in favour of a succession duty which you would graduate in the way shown in your answer to question No 138?

A.—Yes

Dr Paranjpye *Q.*—I do not quite understand how you desire to differentiate between the joint family system Any member of the joint family can claim partition In Bengal nobody can claim partition while the father is living. In our parts, a son can claim partition while the father is living In that case, the son has actually got a share, because he can get it at any time In Bengal he cannot while the father is living

A.—I suppose then that the son ought to be taxed

Q.—In Bengal if a man dies and if he is the head of the family, the property can be taxed

A.—On his death

Q.—But if the manager of the family is one of the brothers, then there is a difficulty

A.—He must have a share in the family property

Q.—The other brothers are not the managers; they have in that case a part of the property which they can claim at any time by claiming partition, couldn't you do it in that way?

A.—The tax will be imposed on the share of the dead man, not on the share of the others. Similarly, when a son dies while the father is living, the son had a share which he could claim at any time in his lifetime.

Q.—You will have to assess some property twice over. As soon as an infant son is born, he actually becomes the owner of a certain amount of property.

A.—We must make some provision for that

Q.—What do you think should be the minimum of exemption? You are in favour of having two sets of duties, one on the whole estate left and the other a legacy duty

A.—As it is in England there is graduations, which is based on the amounts as well as the degree of relationship. I would not make any graduation outside the joint family.

Q.—Supposing you are separated from your brothers; those brothers would be your heirs if you die without any children.

A.—In that case coparceners should be taxed at a higher rate

Q.—Would you have many different classes of rates?

A.—Two will be enough, one for the members of the joint family and the other for those outside it; or one for those in direct descent and the other for collaterals

Q.—You say that the revenue from a tax on property should go to the province in which the property is situated. How would you determine that?

A.—The succession duty on a property should go, in my opinion, to the province where the property is situated

Q—If the property were situated all over India?

A.—Each province will get its share of the property.

Q—Where would bonds be situated?

A—That is an administrative difficulty which I suppose can be arranged; the bonds can be at any place

Q.—Would you allow varying duties in different provinces?

A.—I do not think they should vary What I felt was that already there is a good deal of difficulty created among the provinces as a result of the financial relations.

Q—What has been the cause of those difficulties?

A—Some provinces feel that they are paying more. For example, Bengal contributes just less than half towards the whole of the income-tax for India and a good deal of the customs duty also

Dr Paranjpye. Q—The customs duty is paid at Calcutta, but obviously the goods are sold all over India

A.—The whole of the jute export duty, for example, amounting to 3 to 4 crores of rupees, is paid by Bengal only I haven't studied the question of provincial contributions, but Bengal and Bombay have been very badly treated in this respect.

The President Q—You would, for instance, give to the Punjab the whole of the salt duty from the salt mines?

A—I wouldn't mind if it is

Dr Paranjpye Q—What about wheat exported from the Punjab?

A—There is no export duty on wheat.

Q—They will claim to have an export duty for wheat which they exported to other provinces

A—That will be bad no doubt, but I do not think there is any other way out of it You must give the sources of income of Provincial Governments to them.

The President Q—There are a good many other countries where you have Federal and State Governments Do you know of any which operate on that principle?

A.—In most other countries the Federal Government is fixed by constitution and when once it is fixed there cannot be any difficulty, whereas in India you have started on the wrong principle Money is given in doles to the provinces.

Q—Is it not a fact that when a number of unitary States combine, one of the conditions of combination has been that the taxation affecting general trade should be the function of the Federal Government and not of any State Government?

A.—Here you should divide, if you have no division

Q—When unitary Governments agree together on a certain system, they find it necessary to make taxes affecting trades central *a priori*, when you have a Central Government giving away these functions, you should apply the same principle

A.—If you have uniformity all over the country You will find that land revenue as regards Bengal will only give you 4½ crores for all time; in other places it may be increased I do not object to this particular item.

Dr. Paranjpye. Q—Do you think that, if death duties are instituted, they ought to be at a common rate, although the yield should be handed over to the provinces?

A.—Yes, they should be fixed, collected and administered by the Central Government.

Sir Percy Thompson Q—On what basis are you going to divide them between the various provinces?

A—According to the property.

Q—Not according to domicile?

A.—But succession duties ought to go to the place where the property is situated

Dr Paranjpye Q—Bonds may be supposed to be located anywhere?

A—Wherever administrative convenience will permit

Sir Percy Thompson Q—You seem to be very positive that the location of the property should be the determining factor in assessment. What is your authority for this?

A.—It seems to me that it is only just to give the income from a property to the province where the property is situated.

Q—Have you seen the report of the Committee on double taxation appointed by the League of Nations? They take quite a different view from yours

A—If domicile is allowed, then the income from one province goes to another Land essentially belongs to the province and ultimately a duty will have to be paid on it.

Q.—Not necessarily, so far as stocks or shares are concerned, they do not come out of the land?

A.—They can be transferred, whereas land cannot be taken out.

Q—The ownership of the land can be transferred

A—In that case, the question of the division will be more complicated.

Q—Supposing I have my property in Bombay and a little bit in the Central Provinces, you may charge me an enormous rate on that little bit, simply because my total wealth, most of which is in Bombay, is large If you are going to do that, surely the logical method would be to add up the properties and to charge the properties in any province at a particular rate

A—How will it be divided among the provinces?

Q.—The property in each province would pay its appropriate rate and the yield from that is credited to the province concerned

Dr Paranjpye Q—The amounts may be credited to the provinces, and the extra amount due to the addition of the two properties may go to the Central Government.

A—That will be too complicated

The President. Q—Have you read the extracts in the annexure to our questionnaire from the report of the Committee appointed by the National Tax Association to prepare a plan of a model system of State and local taxation? They say:—

> "We propose, therefore, a personal tax which shall be levied consistently upon the principle of taxing every one at his place of domicile for the support of the Government under which he lives: a property tax upon tangible property, levied objectively where such property has its *situs* and without regard to ownership or personal conditions; and finally, for such States as desire to tax business, a business tax which shall be levied upon all business carried on within the jurisdiction of the authority levying such tax."

What do you say to that as a method of division?

A.—That will be a good method and I do not think it differs very much from what I have said

Q—What about the *business tax?*

A.—There are business taxes and they would go to the province where the business is carried on.

Mr. A. E. MATHIAS, C.I.E., I.C.S., Financial Secretary to the Government of the Central Provinces, was next examined.

Written memorandum of Mr. Mathias.

Q. 106—I would accept the proposition that in the case of national or onerous services administered by a local body, the main criterion for levying the taxes necessary for such services is the ability to pay. I would not accept without qualification the proposition that in the case of local or beneficial services, the criterion for levying taxes necessary for such services is the measure of the benefits received This latter phrase is vague and affords little guidance in assessing any particular tax. The benefits of a pure water supply for example may be incalculable If on the other hand the measure of the benefits received is to be taken as the cost to the local body of providing the service, I consider that taxation should not necessarily be limited to the actual cost of the service to the local body; for example a good water supply, or a good electric light supply, may for local reasons be produced very cheaply; in such a case there is no reason why the local body should not charge a rate in excess of cost of production, based on the rates charged by other local bodies in areas comprising a population of similar taxable capacity I would, therefore, qualify the second proposition by suggesting the following principles of assessment —

(*a*) In assessing a tax necessary to provide for a beneficial service a local body should so assess the tax as to cover at least the total cost of such service

(*b*) In considering the nature and incidence of the tax to be imposed, the local body should take into account the class or classes of the population likely to benefit most from the proposed beneficial service

(*c*) Where the beneficial service consists of the supply of commodities, as for example water or electric light, the principle of assessment as between individuals should be the quantity of the commodity supplied

2. *Q 107*—I consider the taxes included in schedule II to the Scheduled Taxes Rules are sufficient For the reasons given in connection with question No 106, I consider that taxes imposed in return for services rendered, viz, water-rates, lighting-rates, scavenging rate, drainage-tax, fees for the use of markets should be compulsory As Deputy Commissioner I have found that it is common for such services to involve Municipal Committees in a net loss and that there is the greatest reluctance to increase rates

3 *Qs 108 to 118*—*Octroi*—There is little doubt that octroi duty offends against most of the canons of taxation Although under the rules, schedules of octroi are hung up in the octroi stations, many of those who pay octroi are illiterate and have to accept the rate stated by the octroi *muharrir*; the tax, therefore, offends against the canon of certainty It also offends against the canon of economy of collection; a large staff has to be engaged to man the various octroi outposts* and to supervise the work of the octroi *muharrirs*, while octroi outposts have to be built and maintained There is always grave danger of embezzlement by *muharrirs* and to ensure the maximum return highly paid and efficient octroi superintendents and inspectors should invariably be employed It offends against the principle of convenience of time of payment, because the duty has to be paid by the agriculturist or trader before his goods are sold Octroi can be and is easily evaded by collusion with the *muharrir*, especially where the supervising staff is weak; in the

---

* The cost of collection in Nagpur Municipality is Rs 33,000 against Rs 4,79,000 collected, but in the smaller municipalities it is proportionately higher.

same way fraudulent refunds can also be obtained. In those municipalities where head loads of straw, etc., are not exempt, octroi on this class of goods is frequently evaded by avoiding the roads on which octroi outposts are established. Chief among the opportunities of peculation by the staff is the power which octroi *muharrirs* possess of holding up goods for hours at a time, if the owner is not prepared to accede to their demands. While we may allow due weight to the disadvantages of octroi duties, and they are many, the case against this form of duty should not be overstated. Western writers are apt to ignore the part which is played in India by custom, fear of loss of reputation and bargaining in the fixation of prices, supply and demand are not the only factors in determining prices, and it is not correct to say that the octroi duty even on necessaries is invariably borne by the consumer.

4 Where the commodity is a staple export, *e.g.*, wheat, the price is determined by world conditions, and what is paid to the producer is roughly export price *minus* cost of transport As the commodity can be exported from stations where no octroi tax is levied, it is probable that in a municipality where octroi is levied the tax will be borne by the consumer. It does not follow that the tax bears hardly on the consumer. Where the tax is comparatively light and the cost of transport heavy, the actual price paid by the consumer may be moderate, and in fact much lighter than in other parts of the same province. For example, in Jubbulpore wheat is very much cheaper than in Berar Due attention should be paid to this and in fixing an octroi scale, it is desirable, in taxing raw commodities which are necessaries, to tax those produced in large quantities in the vicinity of the local body concerned

5 Where the raw commodities are not a staple of export and the municipality is the main market, the octroi falls mainly on the producer. Again, where the margin between the wholesale price and the retail price is very large the octroi duty falls on the trader. For example, in Nagpur where the retail price of oranges varies between large margins according to the ignorance or inexperience of the buyer, while the wholesale price is fixed in proportion low on account of the expense of transport to the Bombay market, the octroi duty on local sales falls on the trader, and on exports, on the consumer in Bombay

6. Octroi duty on raw materials for manufacture falls either on the manufacturer or the agriculturist and on imported goods (save where trade considerations interfere) on the consumer.

It is clear from these considerations that octroi duty does not necessarily bear hardly on the poor classes, moreover, the rates fixed are so low that the effect on prices is very small For example, in Nagpur the rate on grain is 8 annas per cart drawn by two animals

7. It must be admitted that octroi has certain definite advantages. First, it is a very old tax; it is recognized by custom, it is acquiesced in and its disadvantages are discounted It is moreover in the main paid by the trading classes in the first instance, who may be expected to be alive to *their* own interests and to take steps to minimize the inconveniences of the system. Owing to the low rates fixed it does not bear hardly on consumers, while it secures that those classes on whom a direct tax cannot be levied shall pay their share to the cost of the municipal advantages which they enjoy. Finally, it produces a large amount of revenue and is not easily replaced.

8. *Terminal tax*.—The terminal tax is economically far more defensible than the octroi It is collected through the agency of the railway on certain exports and imports by rail. It is thus easy and cheap to collect, and offers little opportunity for fraudulent practice. While octroi duty falls frequently on the producer in the first instance before he has an opportunity of selling his goods, terminal tax falls on the trader or the consumer. *Since the consignee* has in the majority of cases to pay railway freight, the tax satisfies the canon of convenience of payment, since it is clearly convenient to pay both railway freight and tax at the same time Recently, however, the railway authorities have increased their rates for collection, probably for good reasons, from 3 per cent to 5 per cent with a minimum monthly payment

of Rs 100. This in the case of the smaller Municipal Committees renders the collection expensive.

9 A distinct tendency has manifested itself to convert terminal tax into an octroi duty without refunds and to tax the country side for the benefit of the town. As an example of this I would refer to the proposal in one of our largest Municipal Committees to impose a tax at Rs. 2 per cart on all cotton imported or exported whether by rail or by road Such a proposal would necessitate the maintenance of octroi posts on the roads, with all the attendant possibilities of fraud and extortion The tax would fall partly on the local mills, but mainly on the cultivator This municipality being an important cotton market, agriculturists bring their cotton from long distances—frequently from localities 100 miles away; they already pay wheel tax for the use of the roads and market dues for the use of the market the proposed tax is in fact an attempt to relieve the residents of the municipality of taxation at the cost of the agriculturist Provided, however, terminal taxes are fixed low and the system of collection such as to avoid the possibility of fraud, there is no objection on the ground of taxation of through trade

10 *House and land tax*—This tax (which is distinctly unpopular) is entirely justified on economic grounds So far as the owner is concerned, the value both of his house and land is increased by municipal improvements, while the occupier perhaps to a less extent also benefits. At the same time, judged by the standard of ability to pay, it must be confessed that the tax is not as justifiable in India as in Europe The size or value of a house is in Europe some measure of the resources both of the owner and the occupier, while it is not always so in India The tax is levied in only two of the Municipal Committees in the Central Provinces and in nine in Berar When levied, it is assessed at the low rate of 5 per cent to 7 per cent of the annual letting value

11 Economically the tax is a good one, but my experience is that there is difficulty in assessing the letting value of the house or land To ensure that the tax is not evaded, it is in my opinion necessary to engage a special staff of well paid men to draw up the assessment lists As a source of revenue, I consider the tax has great possibilities, but I am convinced that it will be difficult, if not impossible, to persuade local bodies to introduce such taxation on an adequate scale. No limit has been imposed by the Local Government on the amount of this tax

12 Under the Central Provinces Municipal Act the house and land tax is recoverable from the owner in the first instance; it may, however, be recovered from the occupier, in such a case, the Act provides that it may be deducted from the rent by the occupier In spite of this provision there is no doubt that in the case of houses, the incidence of house tax is on the occupier The incidence is not so clear in the case of lands, which in certain circumstances, falls on the owner, as for example, where land is available in the vicinity of, but outside, municipal limits The limit of house tax is very low, for example, in one municipality no tax is leviable when the amount would be under 8 annas, while in another the tax is not leviable on houses, the annual letting value of which is under Rs 12 I am inclined to think that limit should be raised, since the collection of small sums is not easy and involves much time and trouble At the same time at least in the larger municipalities, I would enhance the house tax substantially

13 *Land cess*—As regards the land cess, I would refer the Committee to sections 48 and 49, Central Provinces Local Self-Government Act which lays down the conditions under which the cess is recoverable from the landlord and tenant, respectively, The cess is recovered with the land revenue, is economically justifiable, and satisfies the accepted canons of taxation The cess of 6¼ per cent of the land revenue payable under section 48, Local Self Government Act, is payable by the proprietor, and as rents are fixed by Government it cannot be passed on to the tenant The additional cess payable under section 49, Local Self-Government Act, is payable by the tenant in the proportion laid down by sub paragraph (v) of that section

14 As regards question No 113, I would point out that so far as land cess is concerned conditions in England and India are entirely different. In

India the main source of provincial revenue is land revenue; in the Central Provinces land revenue is fixed in part on a consideration of rents paid to the landlord; these rents (or revenue in the case of Government raiyats) are fixed for the term of settlement on a consideration of the soil, crops, prices and other agricultural conditions To permit local bodies to enhance their rates without limit, would necessarily result not only in a considerable disturbance of the land revenue administration but in seriously embarrassing the provincial finances.

15 *Tolls*—Tolls form an obstruction to trade and involve all the dangers of peculation inherent in the octroi system I see no justification for their maintenance on roads, and in fact they are not levied in this province. Where however the construction of a bridge is an urgent public necessity and a local body cannot otherwise afford to construct, the levy of tolls on the bridge, when completed, to pay for the service of a loan incurred for construction appears to me permissible.

16 *Grants in-aid*—Grants to local bodies in the Central Provinces may be divided into—

(*a*) Grants for some particular work

(*b*) Grants for some particular service.

(*c*) General purposes grant.

(*a*) This class of grant presents no great difficulty The grant is made on a consideration of the importance and urgency of the work and the ability of the local body to finance it. The grant does not usually exceed half the cost of the work; if on the completion of the work it appears that the full proportion has not been spent, recovery is made

(*b*) Such grants are mainly made for educational staff and contingencies No definite single principle is followed in the Educational Department in making such grants In the case of Anglo-Vernacular and Aided schools the grant is fixed at ⅓ of approved expenditure. In the case of Municipal Vernacular schools the grant is made as follows —

From the total expenditure on such schools, 6¼ per cent of the net revenue of the municipality is deducted Of the balance Government gives a grant equal to one-half. In District Council schools no principle is followed The grant is made for 5 years on a consideration of local circumstances and there are cases in which the grant has actually exceeded the educational expenditure.

In the case of grants for compulsory primary education, Government grants equal to half the expenditure are made.

(*c*) This grant was until recently placed at the disposal of Commissioners, who on a consideration of local conditions allotted it to local bodies for certain specified objects—communications, education, etc It has, however, been recognized that the distribution of this grant for particular forms of expenditure was in reality ineffective, since a grant under one head merely resulted in releasing an equivalent amount of the local bodies' own funds under this head for expenditure under some other head. The grant is now made by the Local Government for three years (subject to the vote of the Council) and is not allocated to any specific purpose. The following matters are considered in distributing the grant —

(*a*) The financial condition of the local body.

(*b*) The possibility of enhancing the revenue of the local body by additional taxation.

(*c*) The needs of the locality

The grant may be reduced during the three years of currency on the following grounds :—

(a) That the local body has mismanaged its affairs.

(b) That it is extravagant

(c) That it has used any of the institutions under its control or used its powers for purposes other than those sanctioned by law

17. I consider it to be quite impossible to lay down any one principle on which grants should be given In the case of particular works, it is obvious that the circumstances of each case must be considered, the financial position of the local body and the urgency of the work When the grant is made for a service, *e g*, education, it is desirable that the grant should bear some relation to the amount spent on such service by the local body, the system pre-supposes that the amount of expenditure is some guide to the necessity of the expenditure, unfortunately this is not true in India, where it may well be that the more backward districts where education is most needed, are least inclined to recognize its advantages or to spend money on it. At the same time there is much to be said for concentrating on extending education in those districts where its advantages are recognized, in the hope that the enthusiasm of such districts will prove contagious and spread to the rest of the province It must be remembered also that the sources of revenue of Provincial Governments are extremely inelastic and the only safe principle which can therefore be followed in determining grants for recurring expenditure to local bodies, i e the ability of the provincial finances to stand the strain On the whole I am inclined to think that it would be desirable for the Finance Department to intimate to the Educational Department in the form of a sum to be recalculated every five years, the proportion of the normal revenue of the province which can be expended on grants to local bodies No great difficulty would be experienced in working out such a percentage, and the expenditure in other provinces and other countries could be taken as a guide Since the growth of local bodies revenue bears some relation to the growth of provincial revenue, particularly in District Councils where the land cess is the main source of revenue, it would then be possible for the Educational Department to work out a definite principle on which such grants should be given in relation to the expenditure of local bodies with little risk of throwing an undue strain on provincial finances Any hardship resulting from the application of the principle adopted should be mitigated by financial assistance in the form of a general purposes grant The grants made by the Central Provinces Government to local bodies stand to other revenue of local bodies in the proportion 33 100 and in the case of District Councils in the proportion 75 100 In England in 1918-19 grants formed 15 per cent only of the total revenue of local authorities

18 In question No 118, it is suggested that the efficacy of withholding or reducing grants depends on the existence of strong local opinion in favour of important local services and the enquiry is made as to whether such opinion exists in the case of education, sanitation and road maintenance In my opinion the growth of public opinion on these matters of recent years has been most remarkable In Berar in particular the interest in communications is widespread, and recently the local Government has received many telegrams from public meetings requesting provision in the budget for road construction and improvement The interest in education is smaller but increasing, while sanitation is only now beginning to engage the attention of the educated classes and is ignored by the masses. Public opinion is inclined to remain dormant so long as Government assistance may be hoped for when difficulties arise A striking illustration of this came to my notice recently In the well to-do town of Ashti in the Wardha district, the dispensary was in the charge of a Dispensary Committee but the medical staff was provided by Government In spite of many appeals the local residents refused to contribute properly to its upkeep and the District Council also discontinued its grant In the end Government withdrew the medical staff and the dispensary was closed Within six months the Deputy Commissioner received an application for the re opening of the dispensary; the District Council guaranteed a grant of Rs 700 and local residents collected

and deposited in the Bank Rs 500 in support of the dispensary finances. I have no doubt that the grant of greater responsibility to local bodies and the removal of official control does tend to create a more effective public opinion in connection with local administration. But Government cannot divest itself of its ultimate responsibility for good administration, and where after extended trial it appears that a fair standard of efficiency cannot be ensured by the stimulus of local opinion, there should be no hesitation in re-establishing official control.

19. To sum up my suggestions in regard to local taxation—

(a) I would make it compulsory to impose taxes in return for definite services rendered, sufficient to cover the cost of such services.

(b) In imposing an octroi or terminal tax on necessaries, those necessaries should be selected so far as possible which are produced in quantity in the vicinity of the local body concerned.

(c) A terminal tax is preferable to an octroi provided that the rates are low and the burden of taxation is not unduly shifted from the town to the country side

(d) I would recommend the imposition of house and land tax in all large municipalities, with a considerably enhanced limit of exemption. A special staff should be employed for assessment.

(e) Full powers of enhancement of land cess cannot be given to local bodies, since this would interfere with the revenue administration and adversely affect the provincial finances.

Mr. Mathias gave oral evidence as follows :—

The President. Q.—You are Finance Secretary to the Government of the Central Provinces, you also undertake Local Self-Government?

A.—Yes.

Q.—Are you in charge of any other department?

A.—The Separate Revenue Department, which includes income-tax, stamps and excise.

Dr. Paranjpye Q.—Were you the Secretary for the Transferred Departments?

A.—I was Secretary for some of the Transferred Departments.

Sir Percy Thompson. Q.—Are you dealing with stamps?

A.—I have information about stamps.

Q.—Do you recognize any stamp, whatever province the dues have been paid to?

A.—Yes.

Q.—Do you realize the duty on cheques which are drawn here?

A.—The Allahabad Bank used to get most of its cheques from Allahabad and I think the Imperial Bank branches outside Nagpur get them all from Bombay or Calcutta. We do stamp cheques, but comparatively few.

Dr. Paranjpye. Q.—Haven't you got any local banks?

A.—Yes, we have Bansi Lal's Bank.

Q.—Do you stamp their cheques?

A.—Yes, some of them.

Sir Percy Thompson. Q.—Do you acquiesce in that position?

A.—I think we have no practicable remedy.

The President. *Q*—I suppose it is also possible that Bansi Lal buys all his hundis from you and distributes them

A.—Yes, it is possible.

Q—Surely you can always get this duty by not recognizing stamps impressed in other provinces and having an appropriated stamp for your own province.

A.—I think that was considered some time ago, but was dropped. The question would affect all Local Governments. My recollection is that this question was discussed at the Finance Member's Conference with reference to the use of postage stamps for revenue purposes and as there was no unanimity on the subject, it was dropped

Q—Where a document which was valid in one province was not valid in another, it would lead to difficulty?

A.—Yes

Sir Percy Thompson. *Q*—A cheque which is drawn on a bank here is not liable to stamp duty anywhere else, no other province can say it is entitled to the stamp duty on that?

A—You are referring only to cheques?

Q.—Yes, the cheques are the grossest instance of the duty going to the wrong province Can't you have an appropriated stamp for your province?

A—I think the banks would probably object We have taken up this question with the Agents, and have asked them to get their cheque books embossed in the C P. with partial success

Q—The position is exactly the same as between England and Northern Ireland An English stamp would not be valid on a cheque in Northern Ireland.

A—From the financial point of view, the matter is not very important, because the number of cheques issued on banks in the Central Provinces is very limited.

Q—Are not cheques very much used in these provinces?

A—Not very much

Q—Is there any other head of duty where the duty is likely to go to another province?

A—I think it is always possible to purchase stamps in any province and use them here

The President *Q*—Where you have a number of companies operating here, the headquarters would be in Bombay?

A—Yes, that is a question which we took up in connection with income-tax

Sir Percy Thompson *Q*—So far as the C P. is concerned, you think it is only a matter of a few thousand rupees?

A—Yes, in regard to cheques

Q—It is just a scramble for duty between the different provinces?

A.—As regards the Central Provinces, it is not an important source of revenue in practice, though in theory your argument is probably correct.

Q—It might be a matter of importance as between two provinces like Bombay and Calcutta.

A—I think it is convenient for the Banks in the larger provinces to have their cheque books stamped where they have their head office for such province. The Imperial Bank at Calcutta would naturally get all their cheque books stamped in Calcutta rather than at Bombay.

The President. Q.—Take the case of share transfers You have many commercial concerns here whose shares are bought and sold.

A.—We get nothing on them.

Dr. Paranjpye. Q.—Is there a stock exchange in Nagpur?

A.—No.

The President Q.—*Is there not a movement for general stamps being made a central head? Do you think it practicable?*

A.—Provided that the division between the provinces can be worked out fairly reasonably

Q.—Have any of your increases led to decreases in the total collections?

A.—Our Stamp Act, which was only passed two years ago, gave us last year roughly Rs. 10 lakhs. We expected to get 20 lakhs. In the case of Judicial Stamps, *we received about Rs. 7 lakhs On General Stamps, we got something over 3 lakhs*

Dr Paranjpye Q.—It is no doubt due to the fact that there has been trade depression recently.

A.—Possibly so, in the case of General Stamps

The President Q.—The stamp fees in the Judicial Commissioner's Court are fixed by the Local Government?

A.—Yes

Q.—Were they specially dealt with in your revised Act?

A.—The increase in stamp duties in the Judicial Commissioner's Court was not in every case in the same proportion as in the other courts.

Q.—Why was that?

A.—That is a matter about which I will refer you to our Legislative Council. The increase proposed by Government was reduced by the Council in some *cases*

Q.—Apparently the Judicial Commissioners have no powers under the Letters Patent Is the legal interest very strong in the Legislative Council?

A.—It was in the old Council I do not know about the new Council

Q.—Does the stamp revenue more than pay for the service rendered as regards the Judicial Commissioners' Court?

A.—It doesn't pay as far as the Judicial Commissioner's Court alone is concerned Probably for the whole province, including the Judicial Commissioner's Court, it does pay The figures which I have obtained from the Judicial Commissioner's Court show that the Court fees realised from the mufassal civil courts in 1923 were 33 lakhs of rupees, while the expenditure after providing for pensions and not including interest on capital cost of buildings was 30 lakhs We were about 3 lakhs to the good.

Q.—Have you reckoned the interest on account of all judicial buildings?

A.—I would refer you to the statement on page 122 of the Provincial Retrenchment Committee's report which shows that the revenue from judicial stamps fell short of the cost of the judicial service by approximately 5 lakhs at the time the Report was framed.

Q.—Was this after the Bill was passed?

A.—No, it was before the Bill was passed The figures which I have obtained from the Judicial Commissioner's Court are for the calendar year 1923 and do not fully represent the effect of the Act; the revenue from judicial stamps in 1923-24 *show an increase of* 11¼ lakhs over the figures of the year on which the Retrenchment Committee's report was based As that report showed a deficit of 5 lakhs only it is probable that the revenue from judicial stamps covers the cost of civil courts.

Q—Your figures are for civil and criminal courts?

A.—They are for civil courts only.

Q.—What about criminal courts?

A.—I have not got figures about them On the whole it is probable that the receipts cover the cost of the service, because as I have said we have a large increase in revenue

Q.—But the criminal courts will cost you more?

A.—We increased the stamps on criminal complaints very heavily.

Q.—By how much?

A—I cannot tell you off hand, but we proposed to double them, my recollection is that it was slightly reduced by the Council

Sir Percy Thompson *Q*—You cannot expect the criminal courts to pay their way Surely if a man is going to commit murder and you have to hang him, it will cost you some money

The President. *Q*—Do any of your village officers do any civil work in village *panchayats*?

A—We have a few civil *panchayats*, they do not relieve the courts of even *petty suits.*

Q—Do you pay for certified copies through stamps in these provinces?

A—We take 2 annas stamps on the application and then the applicant pays according to the number of words on the sheet For 180 words, he pays 4 annas. He actually pays in cash which is converted into stamps and affixed to the copies He produces his own paper which he buys from the Treasury.

Q—It comes into your stamp revenue?

A.—Yes.

Q—Does that more than cover the cost of the service?

A—Not in the Judicial Commissioner's Court The figures are income Rs 9,800, expenditure Rs 11,500 But in the whole of the civil courts in 1923, the income was Rs 148,000 and the expenditure Rs 138,000.

Q—You never had the system of copy stamp papers? Would you advocate using that?

A—Not unless some particular advantage is shown to accrue from it

Q—You get a uniformly good class of paper which has the stamp impressed on it, so that when the man applies for his copies, he files so many sheets of this paper and then you calculate the profit and loss account between the receipts on the copy stamp paper and the cost of copying

A—Yes, for accounts purposes it may be advocated

Dr. Paranjpye *Q*—One copyist may write in large handwriting, while another in small

A.—Yes.

The President *Q*—Your paper is spaced so that you will get a uniform number of words on each sheet I suppose you get practically all your copies typed

A.—Yes

Sir Percy Thompson *Q*—On page 275 of your written statement you say that you would not accept without qualification the proposition that in the case of local or beneficial services the criterion for levying taxes necessary for such services is the measure of the benefits received. The principle of assessment should be the

quantity of the commodity supplied. In regard to a charge for water, the charge should be in some proportion to the quantity used, not that it should exactly cover it.

A.—Yes.

Q.—You would also admit the principle of what the traffic will bear. You don't charge the same for a quantity of water supplied to a mill as to a house.

A.—We do make a distinction in such cases

Q.—That is, you charge what the traffic will bear Again, with reference to your statement on page 275, can you bring any pressure to bear on municipalities to make these services self-supporting?

A.—It depends entirely on the influence of the District Officer. Some District Officers are able to get their municipalities to take action; others are not

Q.—Would you enforce action by a reduction of grants?

A.—Grants are much larger in the case of district councils than for municipalities and to this extent greater pressure can be exercised. But if you cut your grant off, the net result will merely be to affect the financial position of the municipality adversely It will not affect the members of the municipality at all, in the absence of strong public opinion

Q.—The municipality would be worse off if you did not give them a grant-in-aid Why not cut off their grant for education?

A.—That is a grant which it would be possible to cut off, but it would not be advisable to do so.

The President *Q.*—Would you make the house tax compulsory? It is made compulsory by law in certain European countries.

A.—I would, if the Legislative Council would pass it.

Q.—I am asking your individual opinion.

A.—I would

Q.—Is there not an extraordinary provision in regard to district councils in the Central Provinces under which they can practically levy any tax they like?

A.—Yes

Dr. Paranjpye *Q.*—Haven't they to get the sanction of the Local Government?

A.—No Section 51 of the C P. Act says that, subject to the provisions of any law or enactment for the time being in force, a district council may, by a resolution passed by a majority of not less than two-thirds of the members present at a special meeting, impose any tax

The President *Q.*—These extraordinary powers arise from the provision in the Scheduled Taxes rules regarding laws in force at the time the rules were framed?

A.—When the Act was passed, it was understood that there would be control. When the Act came to be interpreted, it was ruled that the law as it stood rendered Government sanction unnecessary.

Dr. Paranjpye. *Q.*—When you say that the payment for these services should be compulsory, you mean that it should be compulsory to an adequate extent to meet the cost of these services?

A.—Yes, to meet at least the cost of these services

Sir Percy Thompson *Q.*—I gather that your general view with regard to octroi is that it is an undesirable tax which cannot be got rid of.

A.—Except by the substitution of a terminal tax.

Q.—You say that a terminal tax is theoretically a better tax. I should have thought that theoretically it was a worse tax; administratively, it might be better.

A.—It is economical to collect and convenient to pay and thus satisfies the canons of economy and convenience Provided you keep the terminal tax low, I do not think it is any obstacle to trade.

The President. Q—Are you speaking of a tax on imports, or on imports and exports?

A—Tax on either imports or exports Provided it is kept low, I do not think it is any obstacle to trade.

Sir Percy Thompson. Q—Would it not operate against a ginning industry being started within a town?

A.—Not provided the terminal tax was kept low enough merely to cover the [illegible] sion of roads or of a cotton [illegible] works out about 12 annas [illegible] for the markets and roads; [illegible] re is at present no terminal [illegible] dues

The President. Q—Does a great deal of cotton go for ginning direct to Bombay?

A.—No

Dr. Paranjpye Q.—Some Khandesh cotton come to you for ginning from the Bombay side

A.—Probably, but I couldn't say off-hand.

Q—Berar cotton has a better reputation than the Bombay cotton

A.—Cotton comes to Nagpur from as far as 200 miles north, in order to get the benefit of classification

Sir Percy Thompson Q—Is any octroi levied at any town where there is no railway station?

A—There are towns where octroi is levied and where there is no railway station Take, for instance, Bhandara

Q—It will be impossible to replace the octroi duty in such places?

A.—You could not replace it

The President Q—You would impose a terminal tax where there is a railway station?

A—Yes But the rates should be low and not higher than the services rendered justify. Otherwise it appears to me that the burden of taxation will be thrown on the country side

Q—A terminal tax can be imposed on road traffic

A.—Yes.

Sir Percy Thompson Q—It will be subject to all the abuses of the present octroi.

A—Yes But municipalities would probably support it because it throws the burden of taxation on the country side

The President Q—What would you say to district councils being allowed to impose a terminal tax at railway stations?

A.—I should be against it

The Maharajadhiraja Bahadur of Burdwan Q—Are not these rates revised by the Local Government from time to time? The municipality has a scheduled rate and at a fixed period they send their rates for revision.

A.—Not at any fixed period Whenever a Municipal Committee wants more money or if it thinks that the tax bears hardly on any particular class of individuals, it sends proposals for revision and the proposals have to be sanctioned by Government They may be sanctioned or modified or sent back for reconsideration A terminal tax by district councils would, I think be an intolerable tax on trade if adopted

Dr Hyder Q.—You make the statement that "it is not correct to say that octroi duty even on necessaries is invariably borne by the consumer" By whom is the octroi duty borne?

A.—It depends on what is meant by necessaries, I suppose you refer to rice, wheat, *jowar*.

Q.—These are articles consumed by people living in the municipality. I think probably the bulk of these people are poor.

A.—I think I have said that in the case of necessaries, as for example wheat, the price paid to the agriculturist is the export price *less* transport costs and that necessarily therefore, if the price is limited to that, any sale within the municipality where there is octroi must be paid for by the consumer.

The President. *Q*—I don't quite see how that works out. Suppose 'X' is the cost of production and 'Y' is the world price. A consignment of wheat that goes to Bombay by rail without going through an octroi town leaves a profit of Y—X. A similar consignment that goes through an octroi town would still sell at Y, but it has got the added charge for octroi.

A—I don't quite follow If the consignment will fetch Rs 50 on export to Bombay, all that the purchaser can afford to pay will be Rs 50 *minus* the cost of freight, say Rs 45 If that is the local rate and you import into a municipality, you have to pay Rs 45 *plus* 8 annas octroi, surely that 8 annas will be borne by the consumer.

Q—You will have two prices in the same municipality, one for what is going to be consumed locally and the other for what is going to be sent to Bombay

A—With octroi you get a refund If a man sets up his business in a place where there is a terminal tax, it will be borne by the trader

Q—Sometimes it is put back on the cultivator, is it not?

A—In some cases

Dr. Hyder *Q*—Take the case of those people who bring vegetables to the market within a municipal area All the people who supply that particular area with vegetables have to pay the octroi The question is who bears this octroi?

A—This is a question of bargaining If the local men say that they are not going to pay this extra amount, where is the market gardener going to take his stuff to? In this case, after many hours of bargaining, a part at least of the octroi will be thrown on the producer

Q—You say they will have to divide it in some proportion?

A—It may be so, but on the other hand, commodities of this sort are very often dealt with by a few men or perhaps even by one man who control the majority of shops or stalls inside the town If the market gardener outside the town proposes to put up the price it seems to me that it is probable that the octroi will be thrown on the producer

Q—This is a special case where the stuff will perish Would that apply to *jowar*, rice etc?

A—It will not apply to *jowar* It is hardly in the same category as market garden produce.

The President *Q*—Among the advantages of this tax, you refer to the fact that it secures that those classes on whom a direct tax cannot be levied shall pay their share of the cost of the advantages which they enjoy To what classes do you refer?

A—I was thinking of the labouring or artizan classes, *e g*, mill hands

Q—Not the traders or middlemen?

A—No.

Q—What is the nature of the wheel tax you refer to? Is it a kind of toll on carts coming from outside?

A.—I think the rate is 3 pies every time a cart comes in I am not sure and should like to verify the point. It is in the nature of a toll

Q—Haven't you got the usual exemption for farm carts?

A—Where a terminal tax on cotton is levied, the cotton carts are usually exempted from this wheel tax

Sir Percy Thompson *Q*—As regards the house and land tax, apparently, you think that it is right that the tax should be levied on the owner?

A—Yes, I think it is

Q—But surely it is the occupier who directly gets the benefits.

A—If you consider that the value of house property depends to a great extent on the improvements made and public services rendered by the municipality, there is some justification for throwing part of it on the owner.

Q—But so far as the tax which is based on utility is concerned, it is the occupier who gets all the benefit; is it not unfair to make the owner pay for it?

A—I had in mind cases in which a municipality might lay out a park, in which case all residential buildings in the vicinity would at once increase in value. In practice however it is usually the occupier who pays and although the local Municipal Act distinctly lays down that house tax should be charged to the owner that does not prevent the owner from passing it on to the occupier by raising the rent.

Q—You are referring to paragraph 12 of your written statement where it is said that "it may be recovered from the occupier; in such a case, the Act provides that it may be deducted from the rent by the occupier."

A—Yes, the intention of the Act was that the tax should be collected from the owner

Sir Percy Thompson *Q*—You say that the intention of the Act is to make the owner bear the tax?

A—Yes, but in actual practice it does not work in that way because the owner merely enhances the rent and the incidence of tax falls on the occupier.

Q—Suppose you have a tax where there is plethora of houses?

A—This is not the case in the Central Provinces.

Q—For instance, we have heard it said that there are plenty of houses in Benares which can hardly be let?

A.—I do not know if that is so

Q—In that case the house owner has to pay?

A—Quite so

The President *Q*—If I understand it rightly, we were under the impression that this house-tax is levied in great number of municipalities?

A.—No The column in the municipal statements does not distinguish between the house-tax and *haisyat* tax or tax on circumstances It includes both House tax is in force in Khandwa in the Central Provinces and some nine places in Berar

Q—Is there any land tax?

A—I do not think there is any I would not like to say so definitely without verifying the fact

Q—What is the difference between the tax on circumstances and the profession tax?

A—Profession tax is usually assessed on income much like an income tax The *haisyat* tax is assessed in the Central Provinces in this way. The total amount to be recovered is first fixed; the inhabitants are divided into classes according to circumstances, to the persons in each class are assigned a certain number of units, those in the highest class having the most units, the total sums to be recovered is then divided by the total number of units This gives the rate per unit, and the individual is then assessed according to the number of units assigned to him in the classification

Q.—Have you got chowkidari tax in this province?

A.—No

Q.—How do you pay your village police?

A.—Do you mean by village police, village *Kotwals*?

Dr Paranjpye *Q*—You have police patels?

A—We have no police patels We have *jaglias* in Berar who are remunerated by a cess in a special form

The President. *Q*—Special cess levied on land?

A—Yes

Q.—In the Central Provinces, how does it work?

A—They have a special cess called *Kotwals'* cess In some cases the *Kotwals* get free land also

Q.—Does this come into the accounts?

A.—I think I have said that in the case of necessaries, as for example wheat, the price paid to the agriculturist is the export price *less* transport costs and that necessarily therefore, if the price is limited to that, any sale within the municipality where there is octroi must be paid for by the consumer.

The President Q—I don't quite see how that works out Suppose 'X' is the cost of production and 'Y' is the world price A consignment of wheat that goes to Bombay by rail without going through an octroi town leaves a profit of Y—X. A similar consignment that goes through an octroi town would still sell at Y, but it has got the added charge for octroi

A—I don't quite follow If the consignment will fetch Rs 50 on export to Bombay, all that the purchaser can afford to pay will be Rs 50 *minus* the cost of freight, say Rs 45 If that is the local rate and you import into a municipality, you have to pay Rs 45 *plus* 8 annas octroi, surely that 8 annas will be borne by the consumer

Q—You will have two prices in the same municipality, one for what is going to be consumed locally and the other for what is going to be sent to Bombay

A—With octroi you get a refund If a man sets up his business in a place where there is a terminal tax, it will be borne by the trader

Q—Sometimes it is put back on the cultivator, is it not?

A—In some cases

Dr Hyder Q—Take the case of those people who bring vegetables to the market within a municipal area All the people who supply that particular area with vegetables have to pay the octroi The question is who bears this octroi?

A—This is a question of bargaining If the local men say that they are not going to pay this extra amount, where is the market gardener going to take his stuff to? In this case, after many hours of bargaining, a part at least of the octroi will be thrown on the producer.

Q—You say they will have to divide it in some proportion?

A—It may be so, but on the other hand, commodities of this sort are very often dealt with by a few men or perhaps even by one man who control the majority of shops or stalls inside the town If the market gardener outside the town proposes to put up the price, it seems to me that it is probable that the octroi will be thrown on the producer

Q—This is a special case where the stuff will perish Would that apply to *jowar*, rice etc?

A—It will not apply to *jowar* It is hardly in the same category as market garden produce

The President Q—Among the advantages of this tax, you refer to the fact that it secures that those classes on whom a direct tax cannot be levied shall pay their share of the cost of the advantages which they enjoy To what classes do you refer?

A—I was thinking of the labouring or artizan classes, *e g*, mill hands

Q—Not the traders or middlemen?

A.—No

Q—What is the nature of the wheel tax you refer to? Is it a kind of toll on carts coming from outside?

A.—I think the rate is 3 pies every time a cart comes in I am not sure and should like to verify the point It is in the nature of a toll.

Q—Haven't you got the usual exemption for farm carts?

A—Where a terminal tax on cotton is levied, the cotton carts are usually exempted from this wheel tax

Sir Percy Thompson Q—As regards the house and land tax, apparently, you think that it is right that the tax should be levied on the owner?

A.—Yes, I think it is

Q—But surely it is the occupier who directly gets the benefits.

A—If you consider that the value of house property depends to a great extent on the improvements made and public services rendered by the municipality, there is some justification for throwing part of it on the owner.

A.—I have read it. I don't think I remember the recommendations in any detail.

Q—One of their chief recommendations was that owing to the low land-revenue, the local body should take over some services and pay for them by increased cesses?

A.—They have a fixed land revenue in Bengal but we have here a land-revenue subject to periodical revision The remedy seems to me that Government should increase the land-revenue and not hand over services to the local body

Q.—You just now said you cannot increase it during the currency of settlement?

A.—No We are handicapped as to the time of making enhancements. I quite agree to that extent Theoretically land-revenue should be increased as the value of land increases, but there are practical difficulties in the way.

Q—Is it not practicable to hand over some services to the local bodies, the cost to be met by imposing cesses?

A—If the local body is competent to undertake them, which is not always the case.

Q—You have tolls in your province?

A.—We have practically no tolls on roads

Q—But you have quite a number of ferries?

A.—Yes, we have a number of ferries

Q—Are the receipts earmarked for the purpose of constructing bridges?

A—No, they are not earmarked The tolls on ferries are levied largely by the Public Works Department, though there are also district council ferries Under the Northern India Canals and Ferries Act, we are bound either to hand over the proceeds to the district councils or spend them on certain objects of utility for the use of the local inhabitants.

Q—Does it not amount to this? You fail to bridge a river and the unfortunate passenger has not only to cross the barrier provided by nature, but you take a tax from him for the temporary convenience provided to him Your charge is in excess of the cost of the boat; then you are taxing him?

A.—Yes, you are taxing him.

Q—Is that a sound policy?

A.—It is not, but the local bodies in this province make little profit and sometimes incur a loss on these ferries

Dr. Hyder *Q*—I see in the report a figure of Rs. 44,000 against this. Do you think that the expenditure exceeds the receipt?

A—You refer to the municipal report; the figure has no bearing on the question of ferries. The figure refers to the tolls levied by the Akola municipal committee on a bridge The idea was to finance the loan for the bridge

Q—Will you please tell us what is meant by *satta* and *jaglia* cesses?

A—Here it refers to the pilgrim tax I do not know why the term '*satta*' is employed The *satta*, properly speaking, is a tax on cotton futures Here it refers to the pilgrim tax which has been imposed in Ramtek two years ago The *jaglia* cess is a cess levied in Berar for the watchmen of the villages

Dr Paranjpye *Q*—Have you taken any step to deal with the cases in which the grants for education actually exceeded the expenditure?

A—I think the Director of Public Instruction is considering what action should be taken.

The President *Q*—Have you ever considered the question of making over some taxes to the local bodies, giving them powers to tax entertainments, impose a surcharge on stamps or letting them have license fees on liquor shops?

A—I think the answer depends on which of these powers you propose to give them Generally speaking local bodies are averse to introducing new taxation

Dr Paranjpye *Q*—Have the municipalities ever asked for any tax on land transfers within their limits?

A—No

Q.—You have never considered the alternative of larger taxing power for the local bodies instead of giving them a share?

A.—I think the municipalities have already got sufficient taxing powers. My own personal opinion is that if they really have a proper assessing and collecting staff their powers of taxation are already sufficiently wide to meet their needs I refer mainly to municipalities, as the revenue of district councils is not as elastic and is already largely collected by Government agency.

Q.—Your educational cess is going to be something of the nature of *haisyat*?

A.—Yes. That is so far as the non-agriculturist cess is concerned.

Q.—Who is going to assess it?

A.—Well, there are difficulties in assessing it In the Act it says it is to be assessed by the Village Sanitation Panchayat where one has been constituted. Where there are no panchayats, the tax should be assessed and collected by the district council or its representatives but difficulties arise The local bodies in Berar want Government to recover on their behalf, but Government considers this duty falls primarily on local bodies and that the existing land revenue staff cannot undertake this additional duty.

Q.—Is it quite sound?

A.—Quite sound to this extent, that a local body should not be permitted to transfer the odium of assessing or collecting a new tax on Government The matter is different if Government undertakes the collection of all taxes of local bodies But a district council should not be allowed to pick and choose and say they will collect one tax and Government another tax

Q.—Have you considered the idea of having contracts with them, something of the nature of the old provincial contracts?

A.—You mean as substitutes for grants-in-aid Most of our grants-in-aid are assessed for five year periods That is practically a contract.

Q.—May we now go to the supplementary memorandum? We have asked your opinion in the matter of determining the proportion borne by the general taxpayer of the cost of local services. We have found it very difficult, on a consideration of the replies of Local Governments, to arrive at any standard of comparison on the basis of percentage of grants to expenditure, and it appears to us that the only way of arriving at a satisfactory comparison is to take the percentage borne by the expenditure of the local bodies to the total cost of certain specified services For the matter of that we find in one province all the roads are run by the local authorities and in another province the roads are run by the Government. What we want to arrive at is the percentage of the total cost of certain services which we should be able to specify for all the provinces, getting the comparison of the extent to which the local bodies bear their own charges in different provinces The only way seems to be to take the whole cost of the services whether it is incurred by Government or by local bodies and take the percentage on the taxes collected by the local bodies.

A.—What about the grants?

Q.—We will wipe out the grants altogether, we will simply say, so many lakhs is spent and so many lakhs is contributed In that way we should be able to arrive at the figure the general taxpayer is paying for special services

A.—I think the plan is sound enough I do not see any other way.

The President. *Q.*—Can you give us any help as to the division of the proceeds which you will find at the end of our questionnaire Professor Seligman recommends the combination of three methods We have nothing to do with the Meston Settlement. We are [illegible]
Seligman is practicable? [illegible]
and takes only three, i.e., [illegible]
local purposes, the separa[illegible]
yield. He suggests the combination of these three. Can you tell us if it will suit your province?

I will put it in another way.

Would you suggest that land revenue should be provincial?

A.—Yes.

Q.—Customs?

A.—It should be Imperial.

Q—Then what method out of these three you would apply in the case of Income-tax?

A—Income-tax in this province is of very little importance

Q—I mean, theoretically?

A.—Theoretically I would say that income-tax must be collected by the central authority. I do not think it is possible to collect by any provincial authority.

Q—Is it possible for such an authority to divide the yield. The Central Government will say what they want and each provincial Government will say what they want.

A.—There would then be several Governments each clamouring for a certain share Will it not be extraordinarily difficult to assess your income-tax beforehand if a Provincial Government wants such and such a share and the Central Government wants such and such a share.

Q—I am not suggesting a share Supposing the Central Government says it wants 2 annas in the rupee, and one Local Government says it wants one anna and another says two annas, will it be possible?

A.—I think it will be extraordinarily difficult.

Q—Would it not be possible to arrive at any satisfactory solution by dividing the yield between the Central Government and the Provincial Governments as you do in the case of companies situated in Bombay and the Central Provinces? You are dividing the income tax between the two provinces in the case of companies?

A.—I do not understand on what principle you propose to decide the proportion

Q—You have arrived at some proportion with regard to income tax levied on companies?

A—Yes But here again there are grave difficulties Bengal gave one proportion and Bombay another The proportion is arbitrary and the larger province has the advantage in bargaining I think it will be difficult to arrive at any fair proportion

Q—Would it be impossible to appoint a tribunal like the Central Board of Revenue which would settle the proportions, varying from year to year?

A.—There will be tremendous heart-burning in the provinces

Q—I am suggesting that there should be an independent body which would be able to arrive at some sort of justice.

A—I doubt whether it would be practicable

Sir Percy Thompson Q.—Supposing you get over the difficulty What will you do for income-tax on Government securities deducted at source?

A—I think there will be difficulties People living in Nagpur do not necessarily keep their scrip in local banks They will probably keep it in Bombay or Calcutta

The President Q—So you think it impossible to do anything in the case of income tax to have the separation of sources? You must leave it purely central?

A—Yes, I think so You may give a division of proceeds, as you have now.

Q—The pie rate?

A—Yes

Sir Percy Thompson Q—Is there no difficulty in that system?

A—There is no particular difficulty in arranging that provinces should get a share But the share varies from year to year

Q—You see no difficulty in arranging to get a share?

A—That is, if the Government of India levied say, Re 0-1-6 in the rupee on the average, I see no objection in arranging that 1 pie of this should go to the province

14th February 1925.

Nagpur.

PRESENT:

SIR CHARLES TODHUNTER, K.C.S.I., I.C.S., President.

SIR BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan

SIR PERCY THOMPSON, K.B.E., C.B.

DR. R. P. PARANJPYE.

DR. L. K. HYDER, M.L.A.

Rao Sahib G. N. SAHASRABUDHE, B.A., LL.B., Pleader, and Member of the Advisory Board of Industries, Central Provinces and Berar, was examined.

Written memorandum of Rao Sahib Sahasrabudhe.

Prefatory Note

I am a pleader practising at Ellichpur, Amraoti District, Berar, for the past 40 years. Besides the profession, I have served the public in various capacities. I was an Honorary Secretary of Co-operative Stores in 1886, and was a member of the Indian National Congress till 1915. I worked as Honorary Secretary of the Ellichpur Civil Station Municipality for 8 years and then was Vice Chairman of the same Committee for 18 years. I was also a Chairman of the Nutan General Library and Vice President of the Recreation Lodge, Ellichpur. I was also President of the Board of Directors of the Berar Match Manufacturing Company Ltd., Ellichpur, which has unfortunately proved to be a failure. I was examined as a witness by the Indian Industrial Commission in December 1916 at Nagpur and was also examined as a witness by the Indian Fiscal Commission on 28th February 1922 at the Secretariat, Bombay. I have been appointed a member of the Advisory Board of Industries, Central Provinces and Berar, by the Central Provinces Government in 1921 and I am still working as a member of the Board. I am studying the question of the industrial development of India for the past quarter of a century. I am a landholder and generally lease out the fields to other people.

Backed by this experience, I am inclined to help the Committee as far as possible by putting in a written statement in answer to the elaborate questionnaire prepared by the Committee. The public are really indebted to the Committee for the troubles taken in collecting the various sort of information and statistics not only for India but even for other big countries of Europe and America—which was greatly needed and which has been of greatest use to the gentlemen who wish to answer the questionnaire.

The question of Indian taxation is a very complicated and intricate question and requires overhauling from every point of view. The questionnaire is a comprehensive one and one is puzzled to think of answering all questions

which involve the subjects of various complicated nature By analysis of the questionnaire it seems that it covers the following subjects all connected with the political economy of the country. They are as follows:

1. Wealth and poverty of India. 2 Economic conditions of villages 3. Tax on agricultural income 4 Land revenue 5 Municipal and District Board taxes 6 Excise duties. 7 Stamp, Court-fees and Registration fees 8 Salt tax 9 Liquor tax 10 Tax on tobacco. 11 Tax on minerals. 12 Grants by Government 13 New sources of taxation 14 Succession or death duties 15 Division of taxes between Federal and State Governments 16 Direct and Indirect taxes 17 Export and Import taxes—(national) 18 Experience of administrative officers to determine certain taxes 19 Whether taxes imposed in other countries will be suitable to the conditions of India 20 Principles of fair income-tax, etc

All these subjects require a deep study and experience and it is not possible to answer all questions and the Committee is quite right in saying in the prefatory note that it is not intended that all or even a majority of questions should be dealt with by the people who wish to answer the questions. India is a country full of various sorts of religions and races and sects and communities full of ignorance which blocks every progress, and even the administrative methods of Government as regards census are not so accurate as they are in foreign countries. It is very difficult to arrive at a scientific and most accurate conclusions—as regards production and consumption and wealth of the country, etc In these circumstances, a survey of the real economic conditions of the Indian villages is absolutely necessary before taxable capacity of people is found out in the country. However, it is good that the Committee has been appointed to enquire into these matters and submit a report and I am sure some good will come out of this enquiry which will be appreciated by all people of the country

I attach herewith my written statement in answer to some of the questions set by the Committee I do not presume to be an economist nor an expert in these subjects but backed by a little experience of this world, I thought it advisable to help the Committee in the disposal of this intricate problem of Indian taxation. Hoping to be excused for the troubles I am giving and thanking you for the opportunity given to me for taking some part in this very difficult task undertaken by the Indian Taxation Enquiry Committee

---

Economic conditions of villages and towns in Berar, Central Provinces and Deccan and other provinces of India.

(1) *Villages* :—

Villages can be divided into the following classes according to occupations:

1. Land-holders (big).
2. Land-holders (small).
3. Field labourers.
4. Money-lenders, Mahajans, and Marwaris.
5. Carpenters.
6. Blacksmiths
7. Washermen
8. Weavers
9. Barbers.
10. Gondhalis
11. Chamars
12. Depressed Classes.
13. Beggars
14. Mahars
15. Dhors
16. Mangs.

14th February 1925.

Nagpur.

PRESENT :

SIR CHARLES TODHUNTER, K.C.S.I., I.C.S., President.

SIR BIJAY CHAND MAHTAB, G.C.I.E., K.C.S.I., I.O.M., Maharajadhiraja Bahadur of Burdwan.

SIR PERCY THOMPSON, K.B.E., C.B.

DR. R. P. PARANJPYE.

DR. L. K. HYDER, M.L.A.

Rao Sahib G. N. SAHASRABUDHE, B.A., LL.B., Pleader, and Member of the Advisory Board of Industries, Central Provinces and Berar, was examined.

Written memorandum of Rao Sahib Sahasrabudhe.

Prefatory Note

I am a pleader practising at Ellichpur, Amraoti District, Berar, for the past 40 years. Besides the profession, I have served the public in various capacities. I was an Honorary Secretary of Co-operative Stores in 1896, and was a member of the Indian National Congress till 1915. I worked as Honorary Secretary of the Ellichpur Civil Station Municipality for 8 years and then was Vice-Chairman of the same Committee for 18 years. I was also a Chairman of the Nutan *General Library and Vice-President of the Recreation Lodge*, Ellichpur. I was also President of the Board of Directors of the Berar Match Manufacturing Company Ltd., Ellichpur, which has unfortunately proved to be a failure. I was examined as a witness by the Indian Industrial Commission in December 1916 at Nagpur and was also examined as a witness by the Indian Fiscal Commission on 28th February 1922 at the Secretariat, Bombay. I have been appointed a member of the Advisory Board of Industries, Central Provinces and Berar, by the Central Provinces Government in 1921 and I am still working as a member of the Board. I am studying the question of the industrial development of India for the past quarter of a century. I am a land holder and generally lease out the fields to other people.

Backed by this experience, I am inclined to help the Committee as far as possible by putting in a written statement in answer to the elaborate questionnaire prepared by the Committee. The public are really indebted to the Committee for the troubles taken in collecting the various sort of information and statistics not only for India but even for other big countries of Europe and America—*which was greatly needed and which has been of greatest use to the gentlemen* who wish to answer the questionnaire.

The question of Indian taxation is a very complicated and intricate question and requires overhauling from every point of view. The questionnaire is a comprehensive one and one is puzzled to think of answering all questions

which involve the subjects of various complicated nature. By analysis of the questionnaire it seems that it covers the following subjects all connected with the political economy of the country. They are as follows:

1. Wealth and poverty of India. 2. Economic conditions of villages 3. Tax on agricultural income. 4 Land revenue. 5. Municipal and District Board taxes 6. Excise duties 7. Stamp, Court-fees and Registration fees 8. Salt tax. 9. Liquor tax. 10. Tax on tobacco. 11. Tax on minerals. 12 Grants by Government 13 New sources of taxation 14 Succession or death duties 15 Division of taxes between Federal and State Governments 16 Direct and Indirect taxes 17. Export and Import taxes—(national) 18 Experience of administrative officers to determine certain taxes 19. Whether taxes imposed in other countries will be suitable to the conditions of India. 20. Principles of fair income-tax, etc.

All these subjects require a deep study and experience and it is not possible to answer all questions and the Committee is quite right in saying in the prefatory note that it is not intended that all or even a majority of questions should be dealt with by the people who wish to answer the questions India is a country full of various sorts of religions and races and sects and communities full of ignorance which blocks every progress, and even the administrative methods of Government as regards census are not so accurate as they are in foreign countries It is very difficult to arrive at a scientific and most accurate conclusions—as regards production and consumption and wealth of the country, etc. In these circumstances, a survey of the real economic conditions of the Indian villages is absolutely necessary before taxable capacity of people is found out in the country However, it is good that the Committee has been appointed to enquire into these matters and submit a report and I am sure some good will come out of this enquiry which will be appreciated by all people of the country

I attach herewith my written statement in answer to some of the questions set by the Committee I do not presume to be an economist nor an expert in these subjects but backed by a little experience of this world, I thought it advisable to help the Committee in the disposal of this intricate problem of Indian taxation. Hoping to be excused for the troubles I am giving and thanking you for the opportunity given to me for taking some part in this very difficult task undertaken by the Indian Taxation Enquiry Committee

---

Economic conditions of villages and towns in Berar, Central Provinces and Deccan and other provinces of India.

(1) *Villages* —

Villages can be divided into the following classes according to occupations:

1. Land-holders (big)
2. Land-holders (small)
3. Field labourers
4. Money lenders, Mahajans, and Marwaris
5. Carpenters
6. Blacksmiths
7. Washermen.
8. Weavers
9. Barbers
10. Gondhalis
11. Chamars
12. Depressed Classes
13. Beggars
14. Mahars
15. Dhors
16. Mangs

(2) *Wealth of the country or poverty of India.*

Out of these classes (1) and (4) big land holders and money-lenders or *mahajans* can only be called a little rich people. But land-holders are generally not very thrifty and do not save much. Money-lenders can save a little on account of high rates of interest they take from the poor people. But really rich people (money lenders) are few. Their condition depends on the extent of their dealings.

(3) *Field Labourers*:—These people are now-a-days well off owing to the scarcity of labour and high wages. "Well off" does not mean, they are in a position to pay any taxes. But they maintain themselves and their families and that is all. So is the case with other classes and none of them have got any taxable capacity. The sons of *Patels* and *Deshmukhs* generally squander their money in attending theatres, and shows, in wearing fashionable garments, in purchasing motors and bicycles which do not pay them in any way. They are little educated and generally waste their time and energy in doing nothing.

As regards agriculturists generally it seems that they do not save much and barely maintain themselves; when any marriage or other ceremonies are to be performed they are obliged to seek the help of the money-lenders or the *mahajan* or a Co-operative Society. The wages of labourers have become high and the prices of grain, wheat, pulse, ghee and other necessaries have also reached their climax since the German War came to an end. Their habits, manners and customs are simple. They are generally unemployed in four months out of the 12 months of the year. These conditions prevail, as long as there is sufficient rain and growing of ordinary crops. But one famine is sufficient to drive them to the *mahajan* or relief works.

If we go to towns we will observe the same conditions except that the towns and cities consist of shop-keepers, merchants, commercial people, big money-lenders, pleaders and people of other profession. This class is generally better off, but is only able to pay ordinary taxes, imposed by the Municipal Committees or District Boards. They have not got the capacity to bear the burden of the payment of income-tax or super-tax and other high taxes except in few cases.

It is only in cities and presidency towns that some activities are seen. Various sorts of professions and trades are carried on. Commercial firms and rich shops are opened. Theatric performances, cinemas, skating rink, balls and other entertainments and parties take place. It is the cities like Bombay, Calcutta, Madras, Lahore, Delhi, Mysore, Allahabad, Lucknow and other places which can provide some income for various sorts of taxes for the benefit of the people and the Government.

(4) From the figures of the census, it seems that out of 32 crores of people of India one half of the population consists of women and children. Out of the remaining 16 crores of population there are about 2 or 3 crores of beggars who do not earn anything but who are simply supported by and are dependent on the charities of the remaining population. Such as *Bairagees, Gosavas, Mahants, Bhikshuka Brahmins, Haridasas, Puranikas, Gondhalis, Nandi Bailwalas, Joshis, Sadhus, Fakirs, Bahurupees,* general beggars, invalids, sick and others etc. Therefore, it cannot be said that the average people in this country are rich. Even if we take the averages of the figures of revenue income per head given in Annexure B from Dadabhoy Naoroji's times (1865) to the times of Mr. F. Shirras in 1921, it will appear that the result is just the same in 1921 as it was in 1865. The prices of food-stuffs and necessaries have risen to four times of those in 1865, so that in any case, there is no doubt that the people of India, on the whole, are poor and India is a poor country.

(5) The estimates of crops of various kinds given in the Annexure A are not adequate nor are they reliable so as to base our conclusions on them. They are prepared by the village officers who do not make enquiries personally but entrust their work to village Jaglias or Mahars. No thorough enquiry is made and the whole work is simply a guess work. The crops are not under-estimated but they are overestimated especially with a view to show that the fields and the crops are in a good condition. Special fields richly manured are generally selected to make an experiment and the general report of all crops is generally based on the basis of the report of the crop of that field especially selected to make an experiment, so that under any circumstances these statistics are not adequate and reliable.

(6) *Q. 4*—The present system of maintaining statistics of crops can be improved by introducing another system in its place But it will be elaborate and costly and there is no use of spending so much money for it If the statistics are required for the purposes of taxation, I would not be so much particular and accurate about them The question involved is a fiscal question and such questions should be generally treated in favour of the public concerned.

(7) *Principles of taxation*

The four fundamental principles of taxation are given in Mill's Book on "Political Economy" pages 483, 484 and 485 which are very important and may be summarized as follows —

1. The subjects of every State ought to contribute to the support of Government in proportion to the revenue they enjoy under the protection of Government.
2. The tax ought to be certain and not arbitrary
3. The tax should be levied at the time and in the manner in which it is most likely to be convenient to the contributor to pay it
4. Every tax ought to be so contrived as both *to take out and keep out of the pockets of the people* as little as possible over and above what it brings into the public treasury of the State

"The mode of adjusting these inequalities of pressure, which seems to be the most equitable, is that recommended by Bentham of leaving a certain minimum of income sufficient to provide the necessaries of life untaxed"

"Each would then pay a fixed proportion not of his whole means, but of his superfluities."

"This principle of assessment has been partially followed by Mr Gladstone at the last renewal of the income-tax," Mill's book, page 486

"To tax the larger incomes at a higher percentage than the smaller, is to lay a tax on Industry and Economy"

"Inheritance and Legacies exceeding a certain amount are highly proper subjects of taxation"

(8) At present the system of the assessment of the income-tax is as follows:

1. Money-lenders' interest is calculated and ascertained from the balance sheet of the *Baniya* and the tax is assessed on that amount of interest
2. Deductions are not generally made of the amounts spent to raise that income nor the expenses of the maintenance of the family members or dependants are taken into account Perhaps the salaries of an accountant or a peon are sometimes considered and the income is taxed accordingly

This system cannot be called a fair system of assessment of the income-tax To arrive at a definite income, the following procedure should be observed

(*a*) Expenditure of the staff or establishment maintained for keeping accounts and realising the dues should be deducted

(*b*) Motors or conveyances required to carry on the business transactions for speedy recovery of the money due should be deducted

(*c*) Telegraph charges and postal charges, if incurred for carrying on the business, should be deducted

(*d*) Charges on account of the maintenance of the family members, according to the status of the family, say, Rs 25 or 30 a month per member for a big respectable family or Rs 10 to 15 in the case of ordinary family should be deducted

(*e*) Amount of the rent of the house occupied by the members of the family should not be added to the income for the purpose of taxation as it is absolutely needed for the man to live in It is a necessary article.

(*f*) Minimum taxable amount Rs. 2,000 should be deducted from the income as expenditure necessary for the maintenance of a family which is not generally deducted. Because exemption of this amount is intended to show that that amount is necessarily required for the maintenance of a family

(*g*) The practice is that the profits of the year in dispute are taxed on basis of the amount of profits of the year before that year. But the losses incurred in previous years are not considered The net loss incurred in the two preceding years should be allowed before arriving at the assessable income

(*h*) The present minimum amount of Rs 2,000 exempt from the income-tax should be raised to Rs. 3,000 or Rs. 4,000 owing to high prices of food stuffs and other necessary articles. The above amount is required for an ordinary man to have a decent living. He has also to pay other Municipal and District Board taxes

(*i*) The form of the declaration under the Act should provide for correctness to both knowledge and belief of the declarant

In England, I am told that incomes below £100 are allowed an abatement of £25 per child and graded abatement between £70 and £130 Such small incomes should be allowed a further abatement of 15 per cent in large towns with a population of over 100,000 souls and a 25 per cent abatement in seats of Provincial Governments for the higher cost of living there

I propose that the Income-tax Act will require amendments on the above points.

These changes will ensure satisfaction without detracting from the efficiency of the administration of the tax. Moreover, to bring about a greater and a far more satisfaction and harmony between tax payer and taxing officials, some publicity work may be carried on as suggested in the account of the administration of the Massachusetts Income Tax Act of 1916 A D. (*vide* Issue of the Journal of the Indian Economic Society, Bombay—September 1923 No 3, Vol. I, pages 163 to 168)

(9) *Incidence of taxation.*—I do not approve the mode of finding out the incidence of taxation per head of population During my experience of a Vice Chairman of the Ellichpur Civil Station Municipal Committee in Berar, I found that the incidence of taxation per head of population was found as follows :—

The town fund tax income from the people, amounted to Rs 4,000 from 2 000 people, whereas Rs 2 000 was recovered on account of house tax from 2 000 people So that the total income from the taxes amounted to Rs. 6,000 This money was recovered from the imposition of taxes from 2 000 people So that the real incidence of taxation per head of the population comes to Rs. 3 per head of population But in the Government Reports the incidence was found to be arrived as if supposing that Rs. 6,000 was raised from 12,000 people which is the population of the town And therefore it has shown in the Government Reports that incidence per head was only 8 annas This is anomalous. If the amount of taxes has really been realised from taxing 2,000 people the incidence per head must be based on the number of people actually taxed.

(10) The same principle is involved in question No. 25 of the questionnaire issued by the Committee These classes which are not taxed with any tax on liquor, etc., such as religious people, etc , should not be considered in estimating the burden of taxes upon certain community I am not accustomed to any bad habits of tobacco smoking or liquor drinking, consequently I am unable to say anything on question relating to them I wish the people should be free from all these habits and resort to other health and energy giving articles

(11) Taxes on tobacco liquor, opium, railway fares or journey, tramway, telephones, aircrafts, postal charges and telegrams etc , are all things which involve some incidence of taxation These taxes can be avoided if a man is willing to do so. I may call them voluntary taxes A man is not bound to travel by railway or tramway or resort to telegraph or post or motor or

steam cycles, etc. He can do without them But as these facilities are provided under British Government he takes advantage of them Had these facilities not been provided, still the man could have pulled on in this world. So much taxes are voluntary

(12) *Q 27.*—It is not that every member of the community should be taxed, though he takes an advantage of the protection from Government. The taxes are to be imposed on surplus profits or superfluities remaining after making certain deductions. Incapacity of a man even to support himself and his dependants is the test of exemption.

(13) *Q. 28*—Taxation is generally looked upon as a basis for representation in Councils and Committees and Boards But there are many people who do not pay any taxes but still they are entitled to be represented in Councils with the view that their comforts and conveniences should also be looked to by somebody on their behalf.

(14) *Q 29*—*Direct and Indirect Taxes*—Direct tax is the best tax that can be imposed Because in this case the burden of tax lies on the person who pays it and who enjoys the benefit also But in the case of Indirect tax the case is quite different, for instance, the Ellichpur Municipal Committee have imposed a tax called "Terminal tax" or "Poll tax" upon imports and exports of railways All sorts of articles are imported and exported. They are all taxed This tax affects other people also who do not form municipal population But the benefits of the tax-income are enjoyed by the municipal population. For instance, the City Municipal Committee, Ellichpur, have got so much as one lakh of rupees as a result of the proceeds from this Terminal tax. These municipal people are enjoying the benefits whereas other people who form a major portion of the people affected by the tax, have only to bear the burden. In my humble opinion, this Terminal tax should not be introduced by the Municipal Committees But this indirect tax may be allowed to be imposed for revenue purpose and the money credited to the Imperial and Provincial treasury.

(15) *Q 33*—I have carefully gone through the Annexure E in which comparative percentages are given This annexure shows that £500 or Rs 7,500 are exempted from the imposition of income-tax in England. Whereas in India only Rs 2,000 are exempted This limit should be raised to Rs. 4,000 at least as said above

(16) I am not prepared to raise the present rates of income-tax in any case. I go so far and say that the gradation rates be abolished One rate is sufficient. I do not see any reason, why the rates of super-tax be gradually raised. The man works hard, exercises good and sound discretion, uses foresight and tact and the higher profits are the result of the development of the above qualities. It is not good that because he is wise, he should be taxed with a higher rate. Let the money remain with such people. Certainly it will be of use to the country some day or other.

Q. 37—There should be no gradation of rates The whole amount should be taxed according to the ordinary rate and the name "Super-tax" be abolished altogether for the reasons stated above just as the Corporation tax is abolished in England.

(17) *Qs. 38 and 39.*—*Income-tax on agricultural income.*—I am quite against the imposition of a tax on agricultural income. The land is already assessed by Government and this assessment is a tax on the land. The owner of lands and fields is the raiyat and not Government There is difference of opinions on this question but I am humbly of opinion that the land revenue is a tax and not rent. These lands and fields are mortgaged, sold and leased by the owners. in any way they like without any inte[illegible]
time. On the contrary these sales an[illegible]
purchased from a licensed vendor app[illegible]
public These deeds are registered by[illegible]
to register these deeds on payment [illegible] fees. [illegible] Government been the owner of the land, the Government would not have allowed these transactions to be done by the people So it appears that the Government is not exercising any act of ownership over lands and fields under cultivation. In these circumstances, it is not good and against the principle of economy to tax a certain article twice.

(f) Minimum taxable amount Rs 2,000 should be deducted from the income as expenditure necessary for the maintenance of a family which is not generally deducted Because exemption of this amount is intended to show that that amount is necessarily required for the maintenance of a family

(g) The practice is that the profits of the year in dispute are taxed on basis of the amount of profits of the year before that year. But the losses incurred in previous years are not considered The net loss incurred in the two preceding years should be allowed before arriving at the assessable income.

(h) The present minimum amount of Rs. 2,000 exempt from the income-tax should be raised to Rs 3,000 or Rs. 4,000 owing to high prices of food-stuffs and other necessary articles The above amount is required for an ordinary man to have a decent living He has also to pay other Municipal and District Board taxes.

(i) The form of the declaration under the Act should provide for correctness to both knowledge and belief of the declarant

In England, I am told that incomes below £100 are allowed an abatement of £25 per child and graded abatement between £70 and £130 Such small incomes should be allowed a further abatement of 15 per cent in large towns with a population of over 100,000 souls and a 25 per cent abatement in seats of Provincial Governments for the higher cost of living there.

I propose that the Income-tax Act will require amendments on the above points.

These changes will ensure satisfaction without detracting from the efficiency of the administration of the tax Moreover, to bring about a greater and a far more satisfaction and harmony between tax-payer and taxing officials, some publicity work may be carried on as suggested in the account of the administration of the Massachusetts Income Tax Act of 1916 A. D. (*vide* Issue of the Journal of the Indian Economic Society, Bombay—September 1923 No. 3, Vol I, pages 163 to 168)

(9) *Incidence of taxation.*—I do not approve the mode of finding out the incidence of taxation per head of population During my experience of a Vice-Chairman of the Ellichpur Civil Station Municipal Committee in Berar, I found that the incidence of taxation per head of population was found as follows :—

The town fund tax-income from the people, amounted to Rs. 4,000 from 2,000 people, whereas Rs. 2,000 was recovered on account of house tax from 2,000 people So that the total income from the taxes amounted to Rs. 6,000. This money was recovered from the imposition of taxes from 2,000 people So that the real incidence of taxation per head of the population comes to Rs. 3 per head of population But in the Government Reports the incidence was found to be arrived as if supposing that Rs 6,000 was raised from 12,000 people which is the population of the town And therefore it has shown in the Government Reports that incidence per head was only 8 annas This is anomalous. If the amount of taxes has really been realised from taxing 2,000 people the incidence per head must be based on the number of people actually taxed.

(10) The same principle is involved in question No. 25 of the questionnaire issued by the Committee. These classes which are not taxed with any tax on liquor, etc., such as religious people, etc., should not be considered in estimating the burden of taxes upon certain community I am not accustomed to any bad habits of tobacco smoking or liquor drinking, consequently I am unable to say anything on question relating to them I wish the people should be free from all these habits and resort to other health and energy giving articles

(11) Taxes on tobacco, liquor, opium, railway fares or journey, tramway, telephones, aircrafts, postal charges and telegrams, etc, are all things which involve some incidence of taxation These taxes can be avoided if a man is willing to do so I may call them voluntary taxes A man is not bound to travel by railway or tramway or resort to telegraph or post or motor or

steam cycles, etc. He can do without them. But as these facilities are provided under British Government he takes advantage of them Had these facilities not been provided, still the man could have pulled on in this world So much taxes are voluntary.

(12) *Q 27.*—It is not that every member of the community should be taxed, though he takes an advantage of the protection from Government. The taxes are to be imposed on surplus profits or superfluities remaining after making certain deductions. Incapacity of a man even to support himself and his dependants is the test of exemption.

(13) *Q. 28*—Taxation is generally looked upon as a basis for representation in Councils and Committees and Boards But there are many people who do not pay any taxes but still they are entitled to be represented in Councils with the view that their comforts and conveniences should also be looked to by somebody on their behalf.

(14) *Q 29—Direct and Indirect Taxes*—Direct tax is the best tax that can be imposed. Because in this case the burden of tax lies on the person who pays it and who enjoys the benefit also. But in the case of Indirect tax the case is quite different, for instance, the Ellichpur Municipal Committee have imposed a tax called "Terminal tax" or "Poll tax" upon imports and exports of railways All sorts of articles are imported and exported They are all taxed This tax affects other people also who do not form municipal population But the benefits of the tax-income are enjoyed by the municipal population. For instance, the City Municipal Committee, Ellichpur, have got so much as one lakh of rupees as a result of the proceeds from this Terminal tax These municipal people are enjoying the benefits whereas other people who form a major portion of the people affected by the tax, have only to bear the burden In my humble opinion, this Terminal tax should not be introduced by the Municipal Committees But this indirect tax may be allowed to be imposed for revenue purpose and the money credited to the Imperial and Provincial treasury

(15) *Q 33*—I have carefully gone through the Annexure E in which comparative percentages are given This annexure shows that £500 or Rs 7,500 are exempted from the imposition of income-tax in England Whereas in India only Rs 2,000 are exempted This limit should be raised to Rs. 4,000 at least as said above

(16) I am not prepared to raise the present rates of income-tax in any case. I go so far and say that the gradation rates be abolished One rate is sufficient. I do not see any reason, why the rates of super-tax be gradually raised. The man works hard, exercises good and sound discretion, uses foresight and tact and the higher profits are the result of the development of the above qualities It is not good that because he is wise, he should be taxed with a higher rate Let the money remain with such people Certainly it will be of use to the country some day or other

Q 37—There should be no gradation of rates The whole amount should be taxed according to the ordinary rate and the name "Super-tax" be abolished altogether for the reasons stated above just as the Corporation tax is abolished in England

(17) *Qs. 38 and 39—Income-tax on agricultural income*—I am quite against the imposition of a tax on agricultural income The land is already assessed by Government and this assessment is a tax on the land The owner of lands and fields is the raiyat and not Government There is difference of opinions on this question but I am humbly of opinion that the land revenue is a tax and not rent These lands and fields are mortgaged, sold and leased by the owners, in any way they like without any interference from Government up to the present time On the contrary these sales and mortgages are written on stamped paper purchased from a licensed vendor appointed by Government to sell stamps to the public These deeds are registered by the Sub-Registrar appointed by Government to register these deeds on payment of registration fees Had Government been the owner of the land, the Government would not have allowed these transactions to be done by the people So it appears that the Government is not exercising any act of ownership over lands and fields under cultivation. In these circumstances, it is not good and against the principle of economy to tax a certain article twice.

(*f*) Minimum taxable amount Rs 2,000 should be deducted from the income as expenditure necessary for the maintenance of a family which is not generally deducted Because exemption of this amount is intended to show that that amount is necessarily required for the maintenance of a family

(*g*) The practice is that the profits of the year in dispute are taxed on basis of the amount of profits of the year before that year. But the losses incurred in previous years are not considered The net loss incurred in the two preceding years should be allowed before arriving at the assessable income

(*h*) The present minimum amount of Rs 2,000 exempt from the income-tax should be raised to Rs 3,000 or Rs 4,000 owing to high prices of food-stuffs and other necessary articles The above amount is required for an ordinary man to have a decent living He has also to pay other Municipal and District Board taxes.

(*i*) The form of the declaration under the Act should provide for correctness to both knowledge and belief of the declarant

In England, I am told that incomes below £100 are allowed an abatement of £25 per child and graded abatement between £70 and £130 Such small incomes should be allowed a further abatement of 15 per cent in large towns with a population of over 100,000 souls and a 25 per cent abatement in seats of Provincial Governments for the higher cost of living there

I propose that the Income-tax Act will require amendments on the above points

These changes will ensure satisfaction without detracting from the efficiency of the administration of the tax Moreover, to bring about a greater and a far more satisfaction and harmony betwee
publicity work may be carried on as sugge
tion of the Massachusetts Income Tax A
Journal of the Indian Economic Society,
I, pages 163 to 168)

(9) *Incidence of taxation* —I do not approve the mode of finding out the incidence of taxation per head of population During my experience of a Vice-Chairman of the Ellichpur Civil Station Municipal Committee in Berar, I found that the incidence of taxation per head of population was found as follows :—

The town fund tax-income from the people, amounted to Rs 4,000 from 2,000 people, whereas Rs 2,000 was recovered on account of house tax from 2,000 people So that the total income from the taxes amounted to Rs 6,000 This money was recovered from the imposition of taxes from 2,000 people So that the real incidence of taxation per head of the population comes to Rs 3 per head of population But in the Government Reports the incidence was found to be arrived as if supposing that Rs. 6,000 was raised from 12,000 people which is the population of the town And therefore it has shown in the Government Reports that incidence per head was only 8 annas This is anomalous If the amount of taxes has really been realised from taxing 2,000 people the incidence per head must be based on the number of people actually taxed.

(10) The same principle is involved in question No. 25 of the questionnaire issued by the Committee These classes which are not taxed with any tax on liquor, etc , such as religious people, etc , should not be considered in estimating the burden of taxes upon certain community I am not accustomed to any bad habits of tobacco smoking or liquor drinking, consequently I am unable to say anything on question relating to them I wish the people should be free from all these habits and resort to other health and energy giving articles.

(11) Taxes on tobacco, liquor, opium, railway fares or journey, tramway, telephones, aircrafts, postal charges and telegrams, etc , are all things which involve some incidence of taxation. These taxes can be avoided if a man is willing to do so I may call them voluntary taxes A man is not bound to travel by railway or tramway or resort to telegraph or post or motor or

steam cycles, etc. He can do without them But as these facilities are provided under British Government he takes advantage of them. Had these facilities not been provided, still the man could have pulled on in this world. So much taxes are voluntary.

(12) *Q 27.*—It is not that every member of the community should be taxed, though he takes an advantage of the protection from Government. The taxes are to be imposed on surplus profits or superfluities remaining after making certain deductions. Incapacity of a man even to support himself and his dependants is the test of exemption.

(13) *Q. 28*—Taxation is generally looked upon as a basis for representation in Councils and Committees and Boards. But there are many people who do not pay any taxes but still they are entitled to be represented in Councils with the view that their comforts and conveniences should also be looked to by somebody on their behalf

(14) *Q 29—Direct and Indirect Taxes*—Direct tax is the best tax that can be imposed Because in this case the burden of tax lies on the person who pays it and who enjoys the benefit also. But in the case of Indirect tax the case is quite different, for instance, the Ellichpur Municipal Committee have imposed a tax called " Terminal tax " or " Poll tax " upon imports and exports of railways. All sorts of articles are imported and exported. They are all taxed This tax affects other people also who do not form municipal population But the benefits of the tax-income are enjoyed by the municipal population. For instance, the City Municipal Committee, Ellichpur, have got so much as one lakh of rupees as a result of the proceeds from this Terminal tax. These municipal people are enjoying the benefits whereas other people who form a major portion of the people affected by the tax, have only to bear the burden In my humble opinion, this Terminal tax should not be introduced by the Municipal Committees But this indirect tax may be allowed to be imposed for revenue purpose and the money credited to the Imperial and Provincial treasury

(15) *Q 33*—I have carefully gone through the Annexure E in which comparative percentages are given This annexure shows that £500 or Rs 7,500 are exempted from the imposition of income-tax in England Whereas in India only Rs 2,000 are exempted This limit should be raised to Rs 4,000 at least as said above

(16) I am not prepared to raise the present rates of income-tax in any case I go so far and say that the gradation rates be abolished One rate is sufficient. I do not see any reason, why the rates of super-tax be gradually raised The man works hard, exercises good and sound discretion, uses foresight and tact and the higher profits are the result of the development of the above qualities. It is not good that because he is wise, he should be taxed with a higher rate Let the money remain with such people Certainly it will be of use to the country some day or other

Q 37—There should be no gradation of rates The whole amount should be taxed according to the ordinary rate and the name " Super-tax " be abolished altogether for the reasons stated above just as the Corporation tax is abolished in England

(17) *Qs. 38 and 39—Income-tax on agricultural income*—I am quite against the imposition of a tax on agricultural income The land is already assessed by Government and this assessment is a tax on the land The owner of lands and fields is the raiyat and not Government There is difference of opinions on this question but I am humbly of opinion that the land revenue is a tax and not rent. These lands and fields are mortgaged, sold and leased by the owners, in any way they like without any interference from Government up to the present time On the contrary these sales and mortgages are written on stamped paper purchased from a licensed vendor appointed by Government to sell stamps to the public These deeds are registered by the Sub-Registrar appointed by Government to register these deeds on payment of registration fees Had Government been the owner of the land, the Government would not have allowed these transactions to be done by the people So it appears that the Government is not exercising any act of ownership over lands and fields under cultivation In these circumstances, it is not good and against the principle of economy to tax a certain article twice

Secondly, great troubles are needed to produce the crop. The land is required to be manured and great care and foresight is needed to be exercised It is not good to tax such an income, the result of great labours and wisdom. The imposition of a tax on agricultural income may induce people to the conclusion of becoming lazy and idle for fear of being taxed * In my opinion an industry should not be taxed which produces food-stuffs in which 80 per cent of the population depend for their livelihood and who are generally poor. Such tax is sure to increase the prices of jowar and rice, etc., which are the staple crops of food of the poor people

Peasantry is an ornament and bulwark of the nation No attempt should be made to cripple agriculture in any way If ample money remains on store with agriculturists *Patels*, *Deshmukhs* and *Deshpandes*, *Jagirdars* and *Malguzars* of the Central Provinces, it will be of greatest use to the country at the time of emergency. A study of village economics will disclose that the village people in India are very poor but it seems essential that a thorough enquiry is needed and the appointment of a Committee by Government called "the Village Economic Enquiry Committee" is absolutely required for the purpose

(17-A) The above remarks apply to mere agriculturists, *i e.*, those who maintain themselves on agriculture alone But there are some people in the country who do not maintain themselves on agriculture alone, but they earn money in the shape of interest in money-lending business. These people generally lease out their lands to tenants and collect money in cash from tenants, which amounts to some thousands of rupees, every year. There are also some landlords as well as money-lenders, who obtain lands by resorting to foreclosure proceedings and thus become good proprietors of lands of 400 to 500 tiffans of land and pay a lend revenue of Rs 4,000 to Rs 5,000 per year. In such cases money should be taxed in an ordinary way. it a proper agriculturist in the real sense be taxed. This will serve as a new source of consideration that any other old tax should be abolished.

(18) *Method of Keeping Accounts.*—This is a very tedious question Many of the Marwari traders and merchants are not in a position of maintaining accounts in a satisfactory condition There arises a confusion and the officer, under these circumstances, therefore, uses his discretion and taxes a Bania with any amount the officer thinks fit This procedure has raised dissatisfaction amongst many Marwari merchants No form of accounts is prescribed by Government and it is also not possible to prescribe any form which will be acceptable to all Consequently, it is suggested that the merchants should be believed and their word should be accepted and the assessment made accordingly. This procedure will smooth the matters If Government will rely or trust the merchants, the latter are sure to trust the former. Confidence creates confidence When the people are sufficiently educated, there will be no difficulty and all forms will be duly filled up and forwarded to the proper authorities.

Q 41.—Growth of Accountancy profession has not made any change amongst the *Baniyas* But it has produced a great effect on companies, registered according to law and the highly educated merchants residing in Bombay, Calcutta, Madras, Lahore, Delhi, Allahabad and other big cities A system must be found out and made popular by education and publicity. The system should be such as will meet the wishes of these *Baniyas* who find it difficult to maintain accounts In my opinion the matter is not so very difficult but it requires a little patience, accuracy, carefulness and pains on the part of *Baniyas*

Q 42—A standard form of keeping accounts should be prescribed as is done in France, and the people should be made familiar with that form gradually by education, persuasion, etc.

(19) *Q 47*—The system of making an assessment of the income tax on one year's income is not good as already stated above Three years' income may at least be considered and average taken. The losses, if any, incurred during these years should be deducted and then assessment should be made on the balance as is done in England.

(20) *Q. 48*—The taxation is needed in a country for the protection offered by Government to people living in the country. Every country consists of rich and poor people. Some of them enjoy luxuries, whereas others are simple

---

* *Vide* question 35.

enough. The latter class does not require that degree of protection from Government, as the rich people require. The poor people have got no valuables with them which can be stolen away by robbers and dacoits But this is not the case with the rich people They have got valuables which are needed to be protected and require more protection from Government. Under these circumstances, I think, it will be a hardship to tax the poor. The whole taxation should be raised from the rich people who are in need of greater protection from Government. For example in hilly tracts of the country, the aboriginal tribes reside and along with them some rich people also reside If any amount is required to be collected for the protection of a town of this kind, it should be collected only by imposing taxes on the rich people, no burden should lie on the poor.

(21) *Q. 49—Excise Duty*—I strongly protest against levying excise duty on clothes manufactured in [illegible] Sholapur, Pulgaon, Badnera, Akola, Empr [illegible] and other mills in India I d[illegible] in levying this peculiar tax on pro[illegible] this tax is levied in England or other countries, or Europe and America (*Vide* Journal of the Indian Economic Society, issues of March—June 1924, pages 64 to 71) But it is an unjust and unfair tax which should be abolished at once. Great agitation has been made against this impost by all mill owners in this country but nothing seems to have been done in the matter.

As regards excise duty on the articles mentioned in question No 49, I beg to state that if this tax is to be levied at all it should be imposed on all articles except cotton goods, matches, patent medicines, saccharine, salt, sugar and other necessaries The other articles may be taxed as they are not needed by the poor people

(22) I am an advocate of total prohibition to a certain extent but I am not prepared to impose taxes mentioned in question No 62 by Dr Mathai to replace the liquor tax But I may accept the policy of replacement by imposing some of the taxes mentioned and recommended by the Bombay Excise Committee, 1923

I am not much familiar with the liquor policy in vogue in the Province but I accept all statement made in question No 63 by various learned writers on the subject. To my common sense, they seem good and acceptable with a view to serve the purposes of taxation

(23) *Principles of Fair Taxation*—The principles of fair taxation as laid down by Charles S Devas in his "Political Economy" are as follows :—

(1) To pay due regard to special benefit and taxable capacity, transitory or precarious incomes ought not to be treated as permanent incomes

(2) To follow the golden maxim "*Primum vivere, deinde tributum persolvere*" and to exempt from taxation so much of income as is required not merely for absolute necessities but also for reasonable conventional necessaries and thus to confine taxation as was done at Florence in the golden age of her republic "to superfluous or surplus income" "*Javanzo, allu yetta*"

(3) To increase the percentage levied step by step as the incomes are larger But these steps to be ever less and less and thus the progression to come to an end after a certain point and all larger incomes to be taxed at the same rate on the ground that the wants they satisfy have the same relative importance.

(4) To pay due regard to the numbers of persons the income has to support, in particular, young children and aged relatives

(5) To make due allowance when the incomes are temporary or precarious.

(6) In all matters of taxation, we can only obtain approximate results

Progressive taxation is said to be arbitrary, no intelligible reason being assignable for one scale of progression rather than another (pages 396 to 399)

These principles of fair taxation are again given here with a view to show the great necessity of following them without fail. They are quite consistent with the principles laid down by Mr Mill in his book as mentioned in previous paragraphs So that two great economists, Mill and Charles Devas, fully agree with these principles But it is regrettable to note that some of these principles are not followed by Government in the Central Provinces and Berar Moreover, it may be kindly noted that the increasing rates of the income tax operate as

a set back to the development of the industries of the country. This question is referred in the Report of the Indian Fiscal Commission which, at page 42, states as follows :—

"The income-tax rates have been raised largely since 1915-16 and the yield has risen from 3 to about 20 crores of rupees High rates on income are undoubtedly a handicap to industrial development and there are many who hold that the rates ruling at the present moment are distinctly too high for the interest of industries and the general prosperity of the country The witnesses whom we examined on this point were almost unanimous in the opinion that direct taxation has reached its limit under present conditions and in view of the general feeling in the country, we do not think that any material increase in this form of taxation is feasible. If therefore any further increase in the taxation becomes necessary, it will have to take the form of indirect taxation If, on the other hand a decrease in taxation becomes possible, we think it should take the form of '*pari passu*' reduction in direct and indirect taxation. In view of these conclusions, we cannot anticipate for many years to come any appreciable reduction in the revenue which it is necessary to derive from the customs. This means that import duties must continue high and whether intended or not, protection will be given"

(24) *Municipal Committees and District Boards*—The taxes levied in Municipal towns are house tax, tax on trades and professions, a terminal tax and a latrine cess. The owner of a house taxed with house tax can shift the burden to the occupier of the house by raising the house rent in proportion. The payer of the profession tax can also shift the burden on to another by increasing the rate of interest or fees of the profession.

The profession tax is levied at the rate of 2 per cent and the income of Rs 100 only is exempted from assessment of the tax

The house tax is levied at the rate of 5 per cent on the annual rental value of the house and a house valued Rs 100 and below is exempt from taxation

Fresh sources of income.—I advocate the imposition of the following taxes in the place of existing taxes which may have to be abolished

(1) Income-tax on agricultural income of the nature referred to above; (2) succession duties or death duties, but members who succeed to the undivided property of a Hindu joint family should not be taxed; (3) tobacco; (4) registration fees for marriages; (5) tax on houses; (6) on motors and other vehicles; (7) horses; (8) luxuries such as race horses; (9) entertainments; (10) dramatic performances, (11) skating rink, (12) European balls; (13) cinemas, (14) costly imported articles of consumption; (15) increment value duty; (16) export duty on jute, sheep, goat, hides and skins, wheat and other agricultural produce; and (17) import duties on all foreign made articles which come in the way of encouraging the indigenous industries of the country.

I would not tax betel nut and areca-nut

On enquiry many similar sources of income will be found, but the policy of Government should be not to increase the taxation and the number of articles to be taxed. But the policy of Government should be to reduce the expenditure of the administration, to subject it to strict economy and not to be allowed to be driven to excessive expenditure but to allow the riches to remain with the people and thus to make the country as rich as possible and increase the means of the development of the industries of the country and bring it in equality with countries in Europe and America in every respect

In conclusion, I request that the above suggestions may be followed and at least the expenditure of a tax-payer's family and amount of the rent of the house occupied by him should be deducted from the total income and the balance only may be concerned with income tax.

Rao Sahib Sahasrabudhe gave oral evidence as follows :—

The President. *Q.*—You are a member of the Advisory Board of Industries and have long been associated with the Ellichpur Municipality

A.—Yes, Sir.

Q—Are you still a member of the Ellichpur Municipality?

A—No, Sir I have resigned on account of old age.

Q.—But your chief interest is commerce?

A.—Yes, Sir. Commerce and industry.

Dr. Hyder Q.—You say that the administrative methods of Government as regards Census are not as accurate as they are in foreign countries. It means that people are unwilling to tell the truth about their real wealth Do you think in the case of an economic survey, they will disclose information about their income, etc., if the survey extended to the villages?

A.—Of course they will be suspicious and will under-estimate their income.

Q.—So the average would not reflect the correct estimate?

A.—Yes, I believe so.

Dr. Paranjpye Q.—Obviously your class 12 should not be there if you are entering separately Chamars, Mahars, Dhors and Mangs? So you ought not to put in a separate class as "depressed classes"?

A.—All right, Sir.

Q.—It is not mutually exclusive?

A.—Of course not. I have simply given the classes by profession I have not done it according to the Government rules.

Dr. Hyder Q.—May I ask whether these Mahars, Dhors, etc , come under the category of field labourers in your province?

A.—Not all Most of them are labourers But for example these *Gondhalis* are masons, and *Dhors* are leather workers They may come in under the heading "labourers"

Q.—You say that the sons of Patels and Deshmukhs generally squander their money in attending theatres and shows and purchasing motors and bicycles. Don't you think they should be taxed on what they spend on motor-cars?

A.—I say it is a luxury and so I don't see any harm in taxing these motor-cars

Q.—You think by taxing these people, the burden can be shifted from the poor people?

A.—Yes. I quite agree with you. Such luxuries should be taxed really.

Q.—You say out of the population in India, there are about 2 or 3 crores of beggars who do not earn anything Do you think it is right?

A.—It is only my guess There may not be 2 or 3 crores of beggars but there are so many, including the so called Sadhus

The President Q.—The Census Report shows only about 5 lakhs?

A.—I have made the calculation like this There are about 60 thousand villages in India and if each village contains at least 5 beggars, it comes to something about 2 or 3 crores.

Q.—No, that will give you only 3 lakhs?

A.—I do not know that, I am sorry, I may be wrong That is only my guess work

Q.—You mention in the same paragraph that even if we take the averages of the figures of revenue and income per head from 1865 to 1924, it will appear that the result is just the same Don't you think that this is an astounding statement?

A.—Why Now-a-days the prices have increased.

Dr Hyder. Q.—Well, Rao Sahib, I put it to you as a young man you must have seen villages with panthers and tigers, which have been turned into habitable villages now with all the industries and other amenities of life I think you must have seen such villages in your experience. Then how could you speak like this?

A—But the prices have increased by four times than before.

Q—Will you not admit that there are a number of industries which did not exist in the year 1865?

A.—I admit it. But they are only in a position to give more wages. That is all What about the prices They are required to spend whatever they get on the high prices.

Dr Paranjpye. Q—On the other hand, is it not a fact that several industries have died out?

A.—Certainly. Many industries do not thrive, for instance, the weaving industry has not been thriving

Dr. Hyder. Q—Is it not a fact that once upon a time in this province many people went about stark naked, and that they are all now clothed? How do you say then that the weaving industry is not thriving?

A.—I do not know anything about the Central Provinces, but I can speak of Berar I have had occasion to see the villagers in Berar; they were never stark naked But they are not better off to-day than they were thirty years ago We see a lot of the people during the bazar days I do not see any improvement in their life than what I saw some years ago.

Q—You say there is absolutely no change?

A.—In my opinion there is no change.

Q—Regarding the estimates of crops, you say they are over-estimates and that they are not reliable. But this is just the opposite to what we have been told in other provinces.

A.—The crop estimates are prepared by the tahsildars and they are sent to the Local Government for information But the tahsildar relies upon the village officers for this work, and they generally select a good field for taking the average. One or two fields which yield better crops are estimated and on that the whole estimate is given

Q—But when it is a question of the assessment of land revenue in a village or giving suspension of land revenue, the real estimate is given out

A.—I am talking of estimates of crops The average estimate, say 16 annas crop or 12 annas crop, is very unreliable

The President Q—Do you know that one Chamber of Commerce at least adds 25 per cent to the tahsildar's estimate because it thinks the estimate of a tahsildar is an underestimate?

A.—I don't know about that.

Q—What do you mean by saying that the system can be improved by introducing another system in its place. What is that system you speak of?

A.—I have not considered it fully; as I have said, it will be elaborate and costly. You will have to engage a special staff for this purpose and there is no use of spending so much money over this.

Q—Do you think it will be sufficient if the tahsildar were to go into the village and meet the important people and then prepare his estimate?

A.—I think if the tahsildar consults the Panchas belonging to the village panchayat or so, it would be certainly better. If the Panchas are consulted and then the statement is prepared, I think, you would approach at least the neighbourhood of the correct estimates.

Sir Percy Thompson. Q—On page 297, you say, that the present system of the assessment of income-tax is as follows :—1 "Money lenders' interest is calculated and ascertained from the balance sheet of the Bania and the tax is assessed on that amount of interest".

A.—Yes, money lenders and cotton traders.

Q.—Then you say that "deductions are not generally made of the amounts spent to raise that income nor are the expenses of the maintenance of the family members or dependants taken into account". What is your complaint?

A.—I lay stress on the maintenance of the family members. Of course in our case the salaries of the clerks or a peon are deducted. But I am not much for it. I am only for the maintenance of the family members or dependants. They should be taken into account in assessing income-tax.

Q.—A good deal has been said in respect of the maintenance of the families. Some witnesses have said that it is quite enough if you allow abatement in respect of wife and children. It has also been put to us by some witnesses that in a country like India where practically every income-tax payer is married, there is not very much, at least not a very strong case, for making these family allowances. Don't you think there is some force in that argument?

A.—I don't think so.

Q.—In a country like England, where you have family allowances, you have a very large number of bachelors who have no dependants to support and who are liable to income-tax. Therefore the grant of such an allowance in respect of married persons will have some force. But here in India where almost every person is married, if the concession is granted, then you will have to grant the allowance to almost every person. Further the family allowance question here is not as important as it is in England. Is there not some force in that argument?

A.—In India every person must get married. Marriage is looked upon as one of the merits of a man. Therefore, because every person is married, it is not a good argument to say that this concession should not be allowed.

Q.—Because you are going to show this concession to every person, then it will simply become a question of adjusting your exemption limit. Later on you maintain that the exemption limit of Rs. 2,000 should be raised to 3,000 or 4,000 rupees as it is too small. Don't you think that your point about granting allowances for dependants might be met by adjusting the exemption limit, instead of making particular allowances according to circumstances of each case?

A.—I think it will meet my case. If the amount of minimum is raised from Rs. 2,000 to Rs. 4,000, it will be all right. In order to satisfy the people a deduction may be made on account of the maintenance of families or dependants, I think this will meet the case.

Q.—You say again that the rent of the house occupied by the members of the family should not be added to the income for the purpose of taxation. May I just put to you this point? One man pays rent for his house, and another man spends capital of ten thousand rupees and buys a house. Is not the man who bought the house in a better position to pay the tax than the other man? He invests his capital in an income-producing security and the other does not. Why should he be exempted?

A.—The thing is that the man who buys a house should not rent the house and if he has the misfortune of doing so, he must pay a tax on it. What I say is that the man who lives in his own house should not be taxed as a house is a necessity. It should not therefore be taxed.

Q.—Is it not equally necessary to have clothes and food? Then should you not make a deduction for the cost of the food you eat?

A.—I have not gone so far. I have taken only the house into consideration.

Q.—I think it is difficult to see how you select one particular necessity of life, namely, house accommodation and say that it should be exempted from tax.

A.—Because you cannot do without a house.

Q.—You say that the profits of the year in dispute are taxed on the basis of the amount of profits of the year before that year, but the losses incurred in previous years are not considered. What is it that you suggest?

A.—I say that the losses for the average three years may be taken into consideration One of the causes for the dissatisfaction of the money-lenders is that the losses are not deducted at all.

Q—You say in paragraph 15 that £500 or Rs. 7,500 is exempted from the imposition of income-tax in England. In Annexure E of the Questionnaire, you will find, for £500, the tax in one case is 3 3 and 12·5 in another case. But in India it is only 3 12.

A—What is the amount of exemption in England?

Q—It roughly corresponds to Rs 2,000 When you are talking about the exemption limit, don't you think that the cost of living in England is much greater than in India?

A—I admit that.

Q—Would you not admit that the exemption should be lower in India?

A—I think the prices in India also are coming to the same level as in England

Q—But the standard of living is higher in England?

A—I admit that If Rs 4,000 is exempted then I will have nothing else to say. I think this increase in tax is a tax on industrial carefulness and foresight. A man is successful in business because he is very careful in business. So I say that income got by such means should not be taxed

Q—You reject the doctrine that taxation should be proportionate to ability to pay?

A—Yes

Dr Hyder *Q*—You say that the tax should be put on the shoulders of the rich Why do you make that statement when you reject this doctrine?

A.—In the case of income-tax only I say this

Sir Percy Thompson *Q*—Surely the income-tax is the best way of getting money from the rich people.

A.—I object to it only on the ground I have mentioned. Industry should not be taxed.

Q—Is it not a little inconsistent with saying that income-tax ought to be graduated?

A—I only say that industry and intellect should not be taxed

Q—Do you mean that you should levy a higher tax on unearned incomes than on earned incomes?

A—You may do that also. But that was not in my mind.

Q—Then we come to income-tax on agricultural incomes. I think your argument is that land revenue is a tax and not rent and therefore no other tax should be imposed on the land?

A—Yes.

Q—Now turning to para 17A of your notes, I think you are in favour of taxing people who draw rents from the land?

A.—Yes. Big money-lenders and big proprietors might be taxed.

Q—But they pay land revenue

A.—They do not work in the fields themselves

Q—On your argument that land revenue is a tax and not a rent, these people pay just the same land revenue as others.

A.—I admit that.

Q—You say that they must not be charged in two ways. In this case they are already paying land revenue.

A.—But they do not work in the fields. They simply lease out the lands.

Q—That is a sentimental reason.

A.—I admit that But I think that such people who collect money in this way should be taxed

Q—Then on the method of keeping accounts you say 'If Government will rely on or trust the merchants the latter are sure to trust the former Confidence creates confidence' We are told that it is a very common thing for merchants to keep two sets of accounts, if not three, one for their own purposes and one for production to the Income-tax Officer Is there any use in trusting people who do that?

A.—If you place some trust in the people they will also try to be honest.

Q—Don't you think that the income tax would then degenerate into a system of voluntary payments?

A—If Government finds out any proper system of taxing them it is all right.

Q—Is it not difficult to devise any form which would be applicable to every kind of business? I cannot imagine how you can ever devise a form of account which will be suitable almost for more than one business There are so many different items in different businesses which will have to be included

A—In any case it is a matter of trust in the people

Q—How are you going to know who is an honest man and who is a dishonest man unless you make enquiries and go into the accounts?

A—You may prosecute him if he does not keep accounts.

Q—But the figures that he puts in the account might be wrong.

A—I do not see any other method than placing trust in the people If they see that Government trusts them, they will not commit breach of trust. Of course there might be exceptions, as every rule has exceptions

Q—Do you think that if it was known to the people that every return however unsatisfactory and however incorrect will be accepted by the Government, they will always produce correct returns?

A—I do not know how it is done in other countries But in India I think that placing trust in the people is the only remedy, unless you become more strict according to law.

Q—What about becoming more strict according to law? Don't you think that that is a more satisfactory solution? That greater power should be given to the Government to examine books and accounts—is not that a possible alternative?

A—That is again giving powers to a certain man During the examination, I do not know what will happen

Dr. Paranjpye *Q*—We often hear, when the accounts are brought to the courts, that they have been fabricated and so on

A—But we also know that only extracts of accounts are produced in courts and they are not challenged by the other side Of course in some case there may be two or three sets of accounts kept I also hear of that But I do not think that all people will be dishonest

Sir Percy Thompson *Q*—I do not suggest for a moment that all people will be dishonest But it is a serious thing even if you have a relatively small number of people who are dishonest because that will be making honest people pay for the dishonesty of others.

A.—I say that the losses for the average three years may be taken into consideration. One of the causes for the dissatisfaction of the money-lenders is that the losses are not deducted at all.

Q.—You say in paragraph 15 that £500 or Rs 7,500 is exempted from the imposition of income-tax in England. In Annexure E of the Questionnaire, you will find, for £500, the tax in one case is 3 3 and 12 5 in another case. But in India it is only 3 12.

A.—What is the amount of exemption in England?

Q.—It roughly corresponds to Rs. 2,000 When you are talking about the exemption limit, don't you think that the cost of living in England is much greater than in India?

A.—I admit that.

Q.—Would you not admit that the exemption should be lower in India?

A.—I think the prices in India also are coming to the same level as in England

Q.—But the standard of living is higher in England?

A.—I admit that. If Rs 4,000 is exempted then I will have nothing else to say I think this increase in tax is a tax on industrial carefulness and foresight A man is successful in business because he is very careful in business. So I say that income got by such means should not be taxed.

Q.—You reject the doctrine that taxation should be proportionate to ability to pay?

A.—Yes.

Dr Hyder. Q.—You say that the tax should be put on the shoulders of the rich. Why do you make that statement when you reject this doctrine?

A.—In the case of income-tax only I say this.

Sir Percy Thompson Q.—Surely the income tax is the best way of getting money from the rich people.

A.—I object to it only on the ground I have mentioned. Industry should not be taxed

Q.—Is it not a little inconsistent with saying that income-tax ought to be graduated?

A.—I only say that industry and intellect should not be taxed.

Q.—Do you mean that you should levy a higher tax on unearned incomes than on earned incomes?

A.—You may do that also But that was not in my mind.

Q.—Then we come to income tax on agricultural incomes. I think your argument is that land revenue is a tax and not rent and therefore no other tax should be imposed on the land?

A.—Yes.

Q.—Now turning to para 17A of your notes, I think you are in favour of taxing people who draw rents from the land?

A.—Yes Big money-lenders and big proprietors might be taxed.

Q.—But they pay land revenue.

A.—They do not work in the fields themselves.

Q.—On your argument that land revenue is a tax and not a rent, these people pay just the same land revenue as others.

A—I admit that.

Q.—You say that they must not be charged in two ways. In this case they are already paying land revenue.

A.—But they do not work in the fields They simply lease out the lands.

Q—That is a sentimental reason.

A.—I admit that. But I think that such people who collect money in this way should be taxed

Q—Then on the method of keeping accounts you say 'If Government will rely on or trust the merchants the latter are sure to trust the former Confidence creates confidence' We are told that it is a very common thing for merchants to keep two sets of accounts, if not three, one for their own purposes and one for production to the Income-tax Officer Is there any use in trusting people who do that?

A.—If you place some trust in the people they will also try to be honest.

Q—Don't you think that the income tax would then degenerate into a system of voluntary payments?

A—If Government finds out any proper system of taxing them it is all right.

Q—Is it not difficult to devise any form which would be applicable to every kind of business? I cannot imagine how you can ever devise a form of account which will be suitable almost for more than one business There are so many different items in different businesses which will have to be included

A.—In any case it is a matter of trust in the people

Q—How are you going to know who is an honest man and who is a dishonest man unless you make enquiries and go into the accounts?

A—You may prosecute him if he does not keep accounts

Q—But the figures that he puts in the account might be wrong

A.—I do not see any other method than placing trust in the people If they see that Government trusts them, they will not commit breach of trust. Of course there might be exceptions, as every rule has exceptions.

Q—Do you think that if it was known to the people that every return however unsatisfactory and however incorrect will be accepted by the Government, they will always produce correct returns?

A.—I do not know how it is done in other countries But in India I think that placing trust in the people is the only remedy, unless you become more strict according to law

Q—What about becoming more strict according to law? Don't you think that that is a more satisfactory solution? That greater power should be given to the Government to examine books and accounts—is not that a possible alternative?

A—That is again giving powers to a certain man During the examination, I do not know what will happen

Dr Paranjpye *Q*—We often hear, when the accounts are brought to the courts, that they have been fabricated and so on.

A—But we also know that only extracts of accounts are produced in courts and they are not challenged by the other side Of course in some case there may be two or three sets of accounts kept I also hear of that But I do not think that all people will be dishonest

Sir Percy Thompson *Q*—I do not suggest for a moment that all people will be dishonest But it is a serious thing even if you have a relatively small number of people who are dishonest because that will be making honest people pay for the dishonesty of others

A.—It may be so in some cases, especially at the beginning. But I do not see any other method of dealing with the question. If the Committee can devise any other method—a better and a more reasonable method—by which people will not be put to great difficulties and worry, by all means it can be adopted But as far as I see, I think that placing trust in the people will solve the whole question. For instance, we had the old system in Berar. There was the Panchayat who used to collect the people together and get information from them and the decision rested upon the majority of the *panchayatdars*. Some such thing may be done now.

Dr. Paranjpye Q—What is your idea of levying income-tax? Do you want first of all to deduct from the earnings of the man all his expenses and then charge income-tax on the surplus?

A.—Yes—on the principle that only the surplus incomes should be taxed.

Q—What would you consider to be the legitimate expenses of the man in charging income-tax? Would you take into consideration only the bare necessities of life?

A.—You can allow a little more in the case of a rich man.

Q.—Why? The fact that he is able to earn and spend more obviously shows that he should pay the State something before he spends more. I can quite understand if you say that a man should have the minimum necessaries of life free of tax. But as soon as a man has got anything more than that, he should pay the State a share of the extra amount he has. The minimum expenditure that is necessary may be exempted from the income-tax. Such being the case do you think that Rs. 2,000 is too high a minimum?

A.—I think it ought to be increased.

Q—Suppose there is man with a family of 5 members What do you think should be the minimum required for their maintenance?

A—At present at least Rs. 2,000 may be required For a poor man Rs 1,000 would do, at the rate of Rs. 75 per month.

Q—So if he gets anything more than the Rs. 1,000 he should contribute a share of that extra amount to the State.

A.—But take the average into consideration. Suppose there is a pleader getting Rs 200 a month He will have to spend for his family expenditure more than Rs. 1,000

Q—How?

A—That is my experience My family expenses come to Rs. 175 a month.

Q—What I say is that you must allow only a minimum amount of expense and whatever is got above that should be taxed You say that Rs. 1,000 will be sufficient for bare subsistence.

A.—That is for a poor man. The society should be divided into so many classes

Q—But before a person gets into a higher class, he must pay for that privilege

A.—I leave it to the discretion of the Committee.

Sir Percy Thompson Q—At page 293 of your note what exactly is the point which you want to make from the illustration you give?

A—By 'incidence' I mean the average tax per head. What I say is that the whole amount realised must be divided by the number of persons who pay the tax, and not by the number of people in the village

The President Q.—What is the 'town fund tax'?

A.—It is a tax on the income of a man, when the income exceeds Rs. 100. It is a kind of profession tax.

Q.—So the same 2,000 people who pay the profession tax also pay the house tax?

A.—Yes.

Q.—The other ten thousand pay neither and you say that there is no incidence on those ten thousand?

A.—Yes. What the Government do is that they divide the Rs. 4,000 among the whole population. I object to that.

Dr. Hyder. *Q.*—You say that there is an element of taxation in railway fares, tramway, telegraphs, etc. Why do you say so? Suppose you come from Ellichpur to this place by a cart. You will have to pay a private person and when the Government provides you with the railway facilities, why do you call it a tax?

A.—Anything that remains after deducting the expenditure incurred is a tax.

Sir Percy Thompson. *Q.*—When a grocer takes profits on the articles he sells?

A.—There is the burden on the people still.

Dr. Hyder. *Q.*—The surplus profit, if any, includes the wages of the man who provides you with the facilities.

A.—That too may be deducted.

Q.—You will find that the amount remaining after all these deductions are made will be very small.

A.—I do not know very much about the accounts. But my idea is that even after making all kinds of deductions, the railways are getting a surplus profit.

Q.—There are also periods when the railways suffer loss.

A.—I do not know about that. My idea is that railways are getting surplus profits.

Dr. Paranjpye. *Q.*—According to the recent railway policy, 1 per cent. on the capital invested is to be given to the Imperial Government. Do you consider that 1 per cent. as a tax on the people?

A.—Yes; that is also a tax on the people. In the case of court-fees, stamps, etc., after deducting the expenditure on the departments, I think the Government must be getting some surplus profit. That is also a tax on the people.

Dr. Hyder. *Q.*—Do you think that the earnings of the pleaders are in the nature of a tax?

A.—They are paid for their labour and intelligence.

Q.—And you do not admit this in the case of Governmental undertakings?

A.—I am talking of surplus. Whatever surplus remains, it is a tax.

The President. *Q.*—Do I understand that, as a result of your local experience in connection with municipal bodies, you advocate direct taxation and not indirect taxation?

A.—Yes.

Q.—You are opposed to the terminal tax?

A.—Yes. Our city municipality gets about Rs. 35,000 under this head and it has got one lakh of rupees in balance. Three-fourths of this comes from the neighbouring villagers who come and make purchases.

Q.—You think it is not fair?

A.—Yes.

Dr. Paranjpye. *Q.*—But is not the municipality making arrangements for markets, roads and so on?

A.—No doubt they do make some arrangements Even taking into consideration this fact, still they take, too much For markets and such other things they impose a separate fee

Dr. Hyder. *Q*—At page 302 of your notes you quote the Fiscal Commission Report and you say that the limit has been reached in the case of income tax?

A.—Yes.

Q—You advocate the shifting of the burden of tax on the people who have got nothing That is to say, you want to substitute indirect tax for direct tax?

A—Yes. In the case of Imperial revenues, indirect taxation is the best method of securing money and in the case of municipalities and District Boards, direct taxation is necessary.

The President *Q*—Regarding excise duty, you would abolish excise duty on cotton cloth?

A.—Yes

Q—Who would get the benefit of the abolition?

A.—The poor people. Now there is rise in the price of cloth.

Q—Do you think that if you abolish the duty, the price will come down?

A.—Yes

Q—Are you sure that it will not go into the pockets of the millowners?

A.—No; it will not.

Sir Percy Thompson *Q*—But why are the millowners in Bombay so very anxious to abolish the duty, if its abolition does not tend to enhance their profits?

A.—Because they think that otherwise the cloth will have to be sold at a high price

Q.—If the effect of abolition is going to be the reduction in the price of cloth, the Bombay millowners are going to get no advantage on account of the abolition. Then why are they keen to have it abolished? Don't you think that they want to take a share of the 3½ per cent. which is the excise duty on cloth?

A.—I do not know if that is their idea.

Dr. Paranjpye. *Q*—Do you think it is purely philanthropic?

A.—I do not know about their real intentions. What I have said is my view and I have no grounds to take a contrary view.

Dr Hyder. *Q*.—Do I understand you to say that you object to a tax on patent medicines?

A.—Yes.

Q—Don't you think that the taxation of such articles would be socially very beneficial?

A.—If they are taxed, I think that medicines will become dearer.

Sir Percy Thompson. *Q*—Are not these patent medicines mostly rubbishy productions which are sold at enormous prices?

Dr. Hyder. *Q*—Don't you think that in the interests of morality it would be desirable to abolish these medicines altogether? You are quite aware that the pages of vernacular papers are full of advertisements of these medicines which do nobody any good?

A.—Do you mean foreign medicines?

Q.—No; medicines produced in India, pills and things of that sort

The President Q—May we come to fresh sources of income? Do I understand that you advocate an income-tax on agricultural income?

A.—Yes, in some cases.

Q—Then you suggest succession duties, but not in the case of people who succeed to the undivided property of joint Hindu families. It might be rather unfair to levy duties in one case and not in the other?

A.—On reconsidering the matter, however, I think they ought to be levied in all cases. Some limit should, however, be fixed, say, property up to Rs. 5,000 should be exempted

Q—What about a tax on tobacco?

A.—Tobacco should be taxed

Q.—Have you thought out a method of doing this?

A—Consumption should be reduced altogether; I do not care how it is done.

Q—Registration fee for marriages?

A.—I am in favour of this at Re. 1 per marriage.

Dr. Hyder. Q—Is it expedient to have such a fee on marriages?

A.—One rupee is not large; it will be a good source of revenue and I do not think the tax will be felt by the people

The President. Q—Then you would tax houses?

A—Only houses in municipalities.

Q.—You would not tax betel-nut Don't you class that with the tobacco habit?

A.—It is a custom which is followed in every village Even women eat tobacco; they don't smoke it.

Q.—Then you would not tax those who eat tobacco, only those who smoke it?

A.—Yes

Q—You would tax all sorts of entertainments?

A.—Yes.

Q.—Including balls?

Dr. Hyder. Q—What form do you think this tax should take?

A.—I will leave this matter to the Committee, but there should be some tax.

The Maharajadhiraja Bahadur of Burdwan. Q—Would you tax village nautches?

A.—No.

Dr. Hyder. Q—Why should you not tax village nautches, but only European balls?

A—I had been to the Skating Rink in Bombay, and I consider that this is a very good subject for taxing

The President. Q—Would you impose a general export duty on agricultural produce?

A—Yes, on export. That will add to the income of Government.

Q—Do you consider that it will be economically a good thing?

A.—An export duty is not bad; it will add to the income of the Government of India.

Q—Would it not kill trade?

A—No.

Dr. Hyder. Q.—Would you impose a duty on wheat?

A.—Foodstuffs will not be taxed. I only meant an export duty on wheat exported from this country to foreign countries. I did not mean internal trade at all.

Q—If export is prohibited by means of this tax, the people who grow wheat would make less money. A large quantity will remain in the country and you will find it difficult to dispose of it.

A.—I think foreign countries will have to purchase it; they cannot do without it.

Q—But India is not the sole source of supply.

A.—A lot of wheat is being exported from the Punjab to other countries.

Q.—I think you made the statement that the practice of the Government in the Central Provinces is contrary to theory in all respects

A—The family expenditure is not deducted, a graduated tax is allowed. According to the principles of political economy, graduated tax is not good.

Q—There should not be progressive taxation?

A.—That is my opinion. There should be no progressive taxation and all incomes should be taxed at one rate. I have stated that industry should not be taxed.

16th February 1925.

Nagpur.

PRESENT.

Sir CHARLES TODHUNTER, K C S I., I C S, President.
Sir PERCY THOMPSON, K B E, C B
Dr R P. PARANJPYE

Sir BIPIN BOSE, Kt., C.S.I., Vice-Chancellor, Nagpur University, was examined and gave oral evidence as follows:—

The President. Q.—Do you think that the pressure of land revenue is very heavy?

A—I do not think so It was no doubt heavy at the resettlement of the nineties under the administration of Sir Alexander Mackenzie and his Revenue Secretary, Mr Fuller At one bound the assessment was very largely enhanced, in some tracts and estates the enhancement touching 125 per cent The tenants' rents were also largely raised Further, the term of settlement was reduced from 30 to 10 or 12 years This measure created deep discontent and it found expression in a widespread agitation against the new settlement policy. The successors of Sir Alexander Mackenzie, after due enquiry, gave abatements The new settlements made since have on the whole been quite fair. I have never heard of any complaint against the new assessments of either the land revenue or the tenants' rents I was in close touch with the people in the agitation of the nineties and I would certainly have known if there had been any general discontent against the present settlements I have an opportunity to know the people's feeling all over the Province in the course of my profession. I know as a fact that in the cotton tracts the *malguzars* and tenants have made very large profits On the whole my conviction is that the settlements are now made on sound principles, fair both to the State and the people.

Q—As between Berar and the Central Provinces, is there any feeling that the land pays more in one province and less in the other?

A—I think the incidence of land revenue is higher in the Central Provinces as compared with Berar I believe Berar landowners do not now pay anything like a fair assessment The reason is that the Berar settlement was made more than 30 years ago, when cotton was a negligible factor in agricultural profits, and when the communications were very bad Now cotton, the staple produce of Berar, has leaped to ten times its former value and communications have vastly improved, the cotton tracts being linked with the great centre of cotton-trade, Bombay The result has been that cotton lands in Berar are now sold at a price very much higher than the price for similar lands in the Central Provinces

Sir Percy Thompson Q—Is it not a fact that land in Berar is selling at very high prices?

A—The records of our courts bear convincing testimony to this fact Land, which pays a revenue of, say, Rs 2 an acre, is sold for Rs 500 an acre and more In the greater part of Berar, the raiyatwari system prevails The result of this great rise in agricultural profits has been that the landholders, *khatadars*, as they are called, have ceased to cultivate their lands themselves And why should they, when they can by subletting make Rs 200 an acre without incurring any of the risks incidental to actual cultivation? For every plot of

land there are half a dozen claimants for subletting and the owner can dictate his terms

Q.—Is it not bad for agriculture?

A.—Yes, it is It must be so when the actual tiller of the soil is without any statutory protection.

Q—Can you stop that?

A.—I will state what has been done in the Central Provinces. After many years agitation, the old distinction between occupancy and non-occupancy tenants has been done away with, and under our new Tenancy Act every tenant, whatever the length of his occupation, has been given permanent tenant-right He cannot be ejected at the mere will of his landlord so long as he pays his rent and does not otherwise contravene the conditions of his tenancy It was anticipated that the creation of this valuable tenant-right would lead to subletting To prevent this power being abused, subletting is allowed only for one year to meet emergent cases, when the tenant may be under a temporary disability to cultivate himself But as he may evade this restriction by continuously subletting year after year, power has been given to the Revenue Officer acting under a notification of the Local Government to clothe the sub-tenant with all the rights of an occupancy tenant, if he finds that the tenant has been habitually subletting or managing his land solely with a view to obtain sub-rents This brings into existence a new middleman, but, I am afraid, this cannot be helped Whether some such law can be made to apply to Berar, it will be for Government to consider.

Q—Is not the tenant rack rented?

A—No His rent is fixed by the Settlement Officer, except in the case of new lands let for the first time in the interval between settlements.

Q—Suppose in Berar you have a raiyat and he has a piece of land he does not want to cultivate Is it not a fact that he can get as big a rent as he likes?

A.—Yes, certainly In the advanced tracts land is very much in demand and so long as the sub-lessee can get the wages of his labour and enough to live upon, he is content. In fact he has to be Thus the land-owners are able to get big rents.

The President Q—You said that the Berar settlement was made 30 years ago. Were all the districts settled at once?

A.—I do not know.

Sir Percy Thompson Q.—The first settlement was made in the sixties, somewhere about 1865 or 1866?

A.—Yes, but whether they were made at the same time throughout Berar, I cannot say

Dr. Paranjpye. Q—Even in the new settlement the increase in land revenue can only be made at a certain rate, it cannot come to the proper standard

A.—Government in the impending new settlement in Berar has proposed an enhancement of the assessment and the land-owners are up in arms. They are now able to make a very large income by subletting and without the trouble of cultivation. This high sub rent is purely an unearned increment the result of extraneous causes and not of anything done by them for their lands. It is mainly the result of high prices of cotton, prices which are regulated by world-causes. They naturally do not like to part with any of this profit, which they have been appropriating to themselves for years In other words, they, a small section of the community, want to deprive the community at large as represented by the State of the right to participate to a reasonable extent in the profits which are mainly due to facilities created by the State out of public revenues

Q—What is your opinion about levying income-tax upon agricultural income?

A—Whatever may be the soundness of such a policy on theoretical grounds, I strongly deprecate it on practical and political grounds In these days, the land-owning classes having a stake in the country are the mainstay of orderly government If you once give them a grievance, your position will be extremely critical. In my opinion, no attempt should be made to tax agricultural income with all the attendant trouble and harassment of such a tax

Sir Percy Thompson. *Q*—It was liable to income-tax in the sixties, about 1860?

A.—When it was introduced by Mr Wilson just after the mutiny, the Bengal landholders strongly objected But afterwards they gave in out of feeling of loyalty to Government, whose finances were in a critical condition owing to the mutiny. But as soon as the financial necessity disappeared, they urged its abolition And this was done, I believe, in 1886 Since then, agricultural income has been exempt from the income tax. These are my recollections There is the further consideration that so far as the Central Provinces are concerned, it will be extremely difficult to get at the real agricultural profit. The village lands, broadly speaking, are divided into two parts, tenancy lands and the *malguzars'* home farm On the former, the owners receive rents, on which they pay the revenue assessment They generally cultivate their home farm themselves and except such of them as are bankers, they do not keep any regular accounts, and in the absence of such accounts, it will be extremely difficult to ascertain the net profits

Dr. Paranjpye *Q*—You can fairly estimate it

A—For the purpose of settlement they put a rental value on it; if you charge income-tax on that, you simply add to the land revenue under the guise of an income-tax You would be thus upsetting the settlement engagement, at least that is how the matter will be looked at by the land-holding classes

Sir Percy Thompson. *Q*—An income-tax could be graduated and you will have exemptions

A—That again will give trouble You will have to enquire into every case before you can allow exemption Moreover, you will have to go upon the artificial rental value of *Sir* To that you will add the tenants' rents From these two you will deduct the land revenue and the village expenses and the balance will, I presume, be taxed All this will simply mean the settlement proceedings over again And this I suppose will be carried on year after year. The harassment to the people will be very great and this will happen in every village

Q—That is what is done in England

A—I do not know, but you must remember that you have to deal with a class of people here who have been accustomed to a certain state of things for years and years, and anything which breaks through the time-honoured custom will create intense dissatisfaction

Dr Paranjpye *Q*—It is not the British Government that does it It is done under a system of provincial autonomy

A—I can tell you that your Council members will think twice before they do it Even if they think that this ought to be done, they dare not do it From one end of the country to the other, there will be an outcry

Q—After all, the number of people subject to this kind of income-tax will be comparatively small

A—They are the most powerful class in the country

Q—They cannot control the votes in the Legislative Council

A—They have great influence Why do you go about it this way? If you want to get more out of land, you have only to add a small percentage to the land revenue I do not advocate this, but only show the way to do it

Sir Percy Thompson *Q*—It is unfair on the small holders

A—You won't tax the tenants, I suppose, but only the *malguzars*

Q—It is possible even to tax the tenants

A—You cannot do it You will have to keep an agency of thousands of people before you can reach the tenants and the harassment will be simply intolerable

Q.—I suppose that 99 out of 100 would come within the exemption limit.

A—All the same, each case will have to be enquired into and dealt with on its merits I won't think of touching the tenants If you decide upon taxing agricultural income at all, it must be the proprietors' profits

Dr. Paranjpye *Q*—The *malguzars* keep 50 per cent of the rents themselves. Can you reduce that 50 per cent to a lower limit?

land there are half a dozen claimants for subletting and the owner can dictate his terms

Q—Is it not bad for agriculture?

A.—Yes, it is It must be so when the actual tiller of the soil is without any statutory protection

Q—Can you stop that?

A.—I will state what has been done in the Central Provinces After many years agitation, the old distinction between occupancy and non occupancy tenants has been done away with, and under our new Tenancy Act every tenant, whatever the length of his occupation, has been given permanent tenant-right He cannot be ejected at the mere will of his landlord so long as he pays his rent and does not otherwise contravene the conditions of his tenancy It was anticipated that the creation of this valuable tenant-right would lead to subletting To prevent this power being abused, subletting is allowed only for one year to meet emergent cases, when the tenant may be under a temporary disability to cultivate himself But as he may evade this restriction by continuously subletting year after year, power has been given to the Revenue Officer acting under a notification of the Local Government to clothe the sub-*tenant with all the rights of an occupancy tenant, if he finds that the tenant* has been habitually subletting or managing his land solely with a view to obtain sub-rents This brings into existence a new middleman, but, I am afraid, this cannot be helped Whether some such law can be made to apply to Berar, it will be for Government to consider

Q—Is not the tenant rack-rented?

A—No His rent is fixed by the Settlement Officer, except in the case of new lands let for the first time in the interval between settlements.

Q—Suppose in Berar you have a raiyat and he has a piece of land he does not want to cultivate Is it not a fact that he can get as big a rent as he likes?

A—Yes, certainly In the advanced tracts land is very much in demand and so long as the sub-lessee can get the wages of his labour and enough to live upon, he is content. In fact he has to be Thus the land-owners are able to get big rents.

The President *Q*—You said that the Berar settlement was made 30 years ago Were all the districts settled at once?

A—I do not know.

Sir Percy Thompson *Q*—The first settlement was made in the sixties, somewhere about 1865 or 1866?

A—Yes, but whether they were made at the same time throughout Berar, I cannot say

Dr. Paranjpye *Q*—Even in the new settlement the increase in land revenue can only be made at a certain rate, it cannot come to the proper standard.

A—Government in the impending new settlement in Berar has proposed an enhancement of the assessment and the land-owners are up in arms They are now able to make a very large income by subletting and without the trouble of cultivation. This high sub-rent is purely an unearned increment the result of extraneous causes and not of anything done by them for their lands. It is mainly the result of high prices of cotton, prices which are regulated by world-causes. They naturally do not like to part with any of this profit, which they have been appropriating to themselves for years. In other words, they, a small section of the community, want to deprive the community at large as represented by the State of the right to participate to a reasonable extent in the profits which are mainly due to facilities created by the State out of public revenues.

Q—What is your opinion about levying income-tax upon agricultural income?

A.—Whatever may be the soundness of such a policy on theoretical grounds, I strongly deprecate it on practical and political grounds In these days, the land-owning classes having a stake in the country are the mainstay of orderly government If you once give them a grievance, your position will be extremely critical. In my opinion, no attempt should be made to tax agricultural income with all the attendant trouble and harassment of such a tax.

Sir Percy Thompson. Q—It was liable to income-tax in the sixties, about 1860?

A.—When it was introduced by Mr Wilson just after the mutiny, the Bengal landholders strongly objected But afterwards they gave in out of feeling of loyalty to Government, whose finances were in a critical condition owing to the mutiny. But as soon as the financial necessity disappeared, they urged its abolition And this was done, I believe, in 1886 Since then, agricultural income has been exempt from the income tax. These are my recollections There is the further consideration that so far as the Central Provinces are concerned, it will be extremely difficult to get at the real agricultural profit. The village lands, broadly speaking, are divided into two parts, tenancy lands and the *malguzars'* home farm On the former, the owners receive rents, on which they pay the revenue assessment They generally cultivate their home farm themselves and except such of them as are bankers, they do not keep any regular accounts, and in the absence of such accounts, it will be extremely difficult to ascertain the net profits

Dr. Paranjpye. Q—You can fairly estimate it

A.—For the purpose of settlement they put a rental value on it, if you charge income-tax on that, you simply add to the land revenue under the guise of an income-tax You would be thus upsetting the settlement engagement, at least that is how the matter will be looked at by the land-holding classes

Sir Percy Thompson Q—An income-tax could be graduated and you will have exemptions.

A.—That again will give trouble You will have to enquire into every case before you can allow exemption Moreover, you will have to go upon the artificial rental value of *Sir* To that you will add the tenants' rents From these two you will deduct the land revenue and the village expenses and the balance will, I presume, be taxed All this will simply mean the settlement proceedings over again And this I suppose will be carried on year after year. The harassment to the people will be very great and this will happen in every village

Q—That is what is done in England

A—I do not know, but you must remember that you have to deal with a class of people here who have been accustomed to a certain state of things for years and years, and anything which breaks through the time-honoured custom will create intense dissatisfaction

Dr Paranjpye Q—It is not the British Government that does it It is done under a system of provincial autonomy

A.—I can tell you that your Council members will think twice before they do it. Even if they think that this ought to be done, they dare not do it. From one end of the country to the other, there will be an outcry

Q—After all, the number of people subject to this kind of income-tax will be comparatively small.

A—They are the most powerful class in the country

Q—They cannot control the votes in the Legislative Council

A—They have great influence Why do you go about it this way? If you want to get more out of land, you have only to add a small percentage to the land revenue I do not advocate this, but only show the way to do it

Sir Percy Thompson Q—It is unfair on the small holders

A—You won't tax the tenants, I suppose, but only the *malguzars*

Q—It is possible even to tax the tenants

A—You cannot do it You will have to keep an agency of thousands of people before you can reach the tenants and the harassment will be simply intolerable.

Q—I suppose that 99 out of 100 would come within the exemption limit.

A—All the same, each case will have to be enquired into and dealt with on its merits I won't think of touching the tenants If you decide upon taxing agricultural income at all, it must be the proprietors' profits

Dr Paranjpye Q—The *malguzars* keep 50 per cent of the rents themselves Can you reduce that 50 per cent to a lower limit?

A.—It is only on paper; what really happens is this: The tenants' rents and what is called the miscellaneous income taken together *plus* the rental value of the home farm constitute the village assets upon which the land revenue is fixed The tenants' rents *plus* the miscellaneous income from forests, etc., taken together are in the majority of villages absorbed in paying the land revenue and the village expenses. The only source of income that remains to the landholder is his home farm, and if he is a good agriculturist, he makes something substantial out of the home farm and this is what makes the village good marketable property What you want is to tax these fruits of the *malguzar's* good husbandry.

Q—What part of the village constitutes the home farm?

A—The limit is fixed by statute; it cannot be more than one-fourth of the whole of the cultivated area except by special order Up to that limit you can absorb anything you like in the home farm Generally the best lands in the village constitute the home farm.

Q—The home farm can only be sublet to temporary tenants

A—Formerly it could be sublet for any period; but the new Act has imposed some restrictions. A sub-tenant of the home farm has no rights except such as he may secure by contract.

The President Q—May we take it that the political objection to an income-tax on agricultural income will equally apply to any attempt to replace the present system by a western system of taxation of land?

A.—I do not know what is meant by taxation of land. You have given the people proprietary right subject to the condition that they pay what is called land revenue They had no proprietary right before You made a gift of it subject to the condition that Government would impose periodically a charge which will vary from certain percentage to certain percentage. Whether you call it a tax or rent, or revenue it does not matter in the least. A man is bound by his engagement under the terms of the gift to give back to Government something of the profits of the property forming the subject matter of the gift.

Q—It is quite impossible to go back on that engagement Your tenancy and your rights in the land are one thing and the payment to Government is another. Supposing, as they do in Australia, you take a percentage on the capital value?

A.—It is entirely foreign to my ideas I cannot say anything as to that. We have been accustomed to this system of land revenue even under the Native Governments. It has come down from them Whoever takes the land from Government has to pay a certain percentage of the profit which he makes out of the land in return for the use and occupation of that land

Q—I think we may take it that the incidence of the payment to Government, whatever you call it, varies in a most extraordinary way from time to time, from place to place and from system to system

A—It did vary formerly. Government did not try to equalise the incidence all at once In some places it was 80 per cent of the assets before the British Government When the British Government came and made the first settlement, it had to maintain the percentage, otherwise there would have been a very large sacrifice of the revenue which was being paid In the northern districts which were under British Government for some time before, the percentage was very much less, say, about 55 per cent Government is now trying to equalize the whole thing throughout the Provinces

Q—I take it that Government can never equalize it as between *malguzari* and raiyatwari The Government share is half in raiyatwari?

A—In raiyatwari it is much more than in *malguzari*, because in the case of the latter, the profits have been divided among three classes, the tenants, the *malguzars* and the Government.

Q—If one district were settled this year as against another settled 30 years ago?

A—Such a thing is very unlikely to happen under the present system of settlement.

Q—In some provinces they fall in year by year.

A—Here there is roster. Some districts are taken up this year, a certain number next year and so on The whole province is dealt with by a system

of rotation. This enables one permanent expert settlement establishment which has acquired experience in settlement affairs to deal with the whole province turn by turn.

Q.—In the interval the district first settled will pay more.

A.—I do not think there is any substantial difference They do not leap up to prosperity all at once

Q.—If I may take a district in Madras—

A.—I cannot say anything outside my province That state of things, I do not believe, can happen in this province

Q.—If one Berar district were settled now?

A.—The whole of Berar will, I take it, be settled in three years or so

Q.—Even if it were in three years, the district first settled would pay a couple of lakhs more than the district settled later

A.—That has to be put up with.

Q.—The inequalities of the system are not a cause of complaint?

A.—They only look to what they have to pay and whether it is a fair sum considering the profits from all sources

Q.—The sum that a particular district has to pay is decided by the Settlement Officer, taking into consideration the fact whether it can bear it at the time he makes the settlement

A.—That is true, but he is bound down by what has gone on in the past. The Land Records Department of the Central Provinces is, I believe, perfect, the best in the whole of India, so far as I know The Settlement Officer has not now to make any minute enquiry into the rise of prices, etc The village papers up to the very last year of the settlement are available and they are very well prepared, subject to scrutiny by a series of officers and they can be taken as a correct representation of the rents which the tenants can pay The village papers now constitute very valuable evidence in our courts

Q.—Have you seen the Central Provinces Land Revenue Bill?

A.—Yes, I have seen it I think it is a perfectly good Bill There may be some difference of opinion as regards the details, but so far as the general principles are concerned, they are perfectly sound The Select Committee will, no doubt, thrash out the details

Q.—Won't that severely limit the increase of land revenue in the future?

A.—You can change it in the future, if circumstances justify such a change.

Q.—Do you think there is any prospect of the Council ever passing an increase?

A.—I think there is, for the reason that the responsibility will pass a good deal into the hands of the people, and when they want more money for improvement, they can only get it from land Excise revenue is dwindling; as regards court fees, etc, the Judicial Department is maintained out of them The only source of revenue is land revenue and unless they increase it, the progress of the whole country will be at a standstill The land holding classes constitute 85 per cent of the people Already there is a revulsion of feeling. The agitation for long term settlements is only now confined to the actual *malguzars*

Q.—Is there any agitation in favour of permanent settlement?

A.—That is now a thing of the past So far as the people at large are concerned, they realize that it is an undue sacrifice of public revenue, permitting the landholders to keep to themselves the whole of the unearned increment, which belongs to the State as representing the people.

Sir Percy Thompson *Q.*—You said just now that Government had granted proprietary right subject to payment of land revenue; that is calculated with reference to the value of land Quite apart from political considerations, would you say that, because that bargain has been made by Government with the proprietor, it will be a breach of faith to impose a general tax all over the country?

A.—There will be no legal bar to the imposition of any tax Government may please to impose

Q.—It is purely a political consideration then?

A.—Yes; moreover you will be simply adding to the land revenue What a *malguzar* makes out of the cultivation of his *Sir* is his real source of revenue. Whatever he gets outside this he gives to Government. It is getting with the one hand and giving with the other.

Dr. Paranjpye Q—He realises a good deal of *nazarana.*

A.—You cannot get at it.

Sir Percy Thompson Q—Why not?

A.—If people want land, they quietly go to the *malguzar* one man says he will give Rs 500, another Rs 1,000 The *malguzar* gets the money and nobody is the wiser for it Government is trying to get at it, but it cannot When a man pays Rs. 1,000 as *nazarana* for a piece of land, the rent fixed is not the economic rent The *patwari* is not told about it, nobody is told about it and land is ostensibly let at Rs 10 But this 10 rupees *plus* the interest on Rs 1,000 is the real rent.

Q—The *nazarana* is a pure fraud on the revenue If a *malguzar* takes *nazarana,* why shouldn't he lose his land, forfeit it?

A—This has become a common thing with the *malguzars* They will simply deny having taken it These things come out only when a dispute arises among the co sharers for division of village profits and they go to court The *lambardar* is the person who realizes the rents, lets out village lands and takes the *nazarana* His co-sharers know about it But very often this cannot be proved. The tenant who pays and the proprietor who receives the money only know about it If you impose a drastic penalty like the one you propose, you must have good evidence to establish the commission of the prohibited act.

Q.—You would only impose the penalty when you have good evidence, but it would check the practice if you did it in well-proven cases

A.—How can you prove it?

Q.—Let us assume that the tenant can produce a receipt

A—He would not be given a receipt. The *malguzar* will only give him a *patta* showing that the land has been let to him at so much The *nazarana* will not be mentioned in it. It is one of the fruitful sources of a *malguzar's* income, for there is so much demand for land in advanced districts In backward districts, of course, land is still available

Dr. Paranjpye Q—When the tenant dies, the occupancy ceases?

A—Only when he dies without any heir It cannot exist unless there is somebody to own it.

The President Q—The occupancy right is not saleable?

A—It is not, and very rightly so A big agitation was set on foot by people who wanted to acquire the occupancy right by transfer when the Bill, which is now our Tenancy Act, was before the Council

Dr Paranjpye. Q.—The *malguzars* all opposed it?

A.—Be it said to their credit that in the interests of tenants they did support the principle of inalienability of tenant-right. Moreover, they would always like to have a say as to who is to be their tenant.

Q.—They will begin to let out their lands themselves

A.—The tenants are always in need of money but their lands cannot be got hold of by their creditor. There was a practice of appointing a receiver under the Civil Procedure Code, and thus frustrate the law of non-alienability, but this also has been put an end to by the new Act Thus the tenancy land is immune against Civil Court decrees

Q—It is practically inalienable land?

A—Yes, except in favour of a person who is in the line of heirs To such a person the tenant right can be transferred

The President Q—If there is an attempt at transfer, the transferee cannot get the land, and if you do not preserve the tenant's right which has been subject to transfer, the *malguzar* would benefit

A—Our Act provides against this contingency by conferring on any person in the line of heirs the right to apply to the Revenue Officer to be placed

in possession of the transferred holding. Failing such an application, the *malguzar* could apply and get the land.

Dr. Paranjpye. *Q.*—Can this right be willed away if a man has no sons?

A.—No, there is no power of willing a tenant-right.

Q.—If he has no sons, will his brother inherit it?

A.—Collateral succession has been extended to a male in the male line of descent and ascent up to the 7th degree, including the tenant himself. That has made it more valuable, because formerly if a man had no son or widow, or daughter, the land lapsed to the *malguzar*, except in cases where there was a co-sharer in the holding possessing certain qualifications

Sir Percy Thompson *Q.*—Can he sell to a relation of the sixth degree?

A.—He can sell it to anybody who is in the line of heirs I think our tenancy law is an excellent piece of legislation It has simplified the law and put an end to much wasteful and harassing litigation

The President. *Q.*—Is the tenant compelled to be himself the cultivator?

A.—He may sublet the land for one year, if he gets ill or if he happens to be a minor and is unable to cultivate himself.

Dr. Paranjpye. *Q.*—Only for one year?

A.—It can be renewed.

Q.—But no permanent right can be created?

A.—No Some people may take advantage of it and habitually sublet There is a provision against this.

The President. *Q.*—Does the sub-tenant secure the rights of a tenant?

A.—If a Revenue Officer finds that an occupancy tenant is in the habit of subletting his land never cultivates it himself and has not done so for a series of years, he can declare the sub-tenant for the time being to be the tenant and the sub-tenant will then have all the rights of an occupancy tenant and the real tenant in that case would be a mere rent receiver That is a check upon subletting This can only be done in pursuance of a notification by Government

Q.—You said just now that the Councils, as time goes on, would be willing to draw an increase of revenue from the land

A.—I believe they must do so The choice is between stopping all improvements or raising more revenue by increasing the land revenue

Q.—Do you see any such tendency on the part of District Councils?

A.—They are not exercising their new powers of taxation The constituency is a substantially landholders' constituency For instance, they have been given power by our new Act to impose cesses for education, for roads and for sanitation and such other purposes, but they have not yet exercised this power Besides such powers for general purposes, they have been given power to impose tolls, market dues, registration fees on sale of cattle and such like, but these provisions of the Act are all still a dead letter.

Q.—Do you think that land which is not used for agricultural purposes escapes taxation in towns?

A.—It pays no taxes in towns In Nagpur, for instance, land pays nothing to Government, except where it has been leased

Q.—Does not that rather contribute to the fact that the municipal taxation falls more heavily on the poor man than on the rich man?

A.—That depends on the nature of taxation We have here both direct and indirect taxes Under direct tax would come water-rate, conservancy cess, etc

Dr Paranjpye. *Q.*—They are for services rendered

A.—Technically they are so They are on a graduated scale A man owning a house, the rental value of which is Rs 10 a month, pays a certain sum; another who owns a house the rental value of which is Rs. 20 pays a larger quota and so on You have a regular sliding scale.

The President. *Q.*—But the maximum is very low.

A.—Yes.

Q—Do you think that there is any hope of municipalities raising it?

A.—Municipal bodies are bossed by people who have themselves to pay taxes, and I am very doubtful if they would raise it. As it is, officials and others, with low fixed salaries occupying rented houses, are taxed much more heavily than rich people living in their own houses.

Q.—Would it be proper for Government to impose a tax on non agricultural land?

A—Is the Government prepared to take the odium? I think Government has enough to do in the matter of its own taxation and should leave the local bodies to impose their own taxes.

Q—Would not the exemption of non agricultural land from taxation give an unfair advantage to the owners of it?

A—Except in large towns like Nagpur and Jubbulpore, most of our towns are *malguzari* village *abadis* of the settlement

Q—In a *malguzari* village, the waste pays no tax at all

A.—If it yields any income in the shape of grazing dues, fuel or *nistar*, then it is included in the miscellaneous income for settlement purposes.

Q—Is it done from year to year?

A—It is done at the settlement.

Q—So that a *malguzar*, who had a large amount of waste, may now derive quite a large income

A.—It was so under the old settlements of the sixties Now there is very little land left in the advanced districts. Almost all culturable land has been taken up and brought under the plough Only bad land, which cannot be profitably cultivated, can now be had in the villages

Q—If such land is cultivated, it does not pay anything?

A.—No. It is left for grazing purposes. All land which is capable of being made a fruitful source of income by cultivation has been brought under the plough or is being rapidly so brought.

Q—We are continually being told that there are millions of acres of culturable land which ought to be cultivated in India generally.

A—In the forest tracts you have such lands, in the *malguzari* areas, I believe, there is very little land now left except in wild districts like Betul and Mandla In the advanced districts you will hardly find any such land and this process is constantly at work with the growth of population.

Sir Percy Thompson *Q*—Have you got any views on the system of administration of income-tax in this province?

A.—No I have not. I hear, of course, complaints that the accounts are carefully scrutinised and people are made to wait for days and that creates some trouble But it is due largely to the fault of the people If they do not keep proper accounts it can't be helped. Many people come to me for advice in the course of my profession I ask them "why do you not keep full and accurate accounts". *If people will keep slovenly accounts as many do, they* are themselves to blame Of course, some honest people also do suffer. It is also a sore point that the trading classes are obliged to disclose their accounts and their financial position to the income tax officers. But I am afraid this cannot be helped

The President. *Q.*—Is there any way of bringing public opinion to bear?

A—There is no chance. Everybody is interested in paying as little as possible to Government. Perhaps, that is human nature all over the world.

Q—Coming to the question of stamps, is there any class of transaction you can suggest that might pay more to the State?

A.—You can tax mutation of ownership in the case of land. Whenever there is devolution by inheritance or transfer by gift, or sale, or usufructuary *mortgage, the people may be made to pay. They can have no right to* complain. For instance, a man dies leaving a large amount of immovable property, something may be taken by way of tax on succession in such a case.

Q.—Would you approve a provision of law that all dispositions of property should be in writing?

A.—Everything has to be in writing under the Transfer of Property Act in the case of immovable property. There can be no transfer without a registered instrument, except when very small sums are involved.

Q.—In the case of succession?

A.—When *malguzari* rights are involved, there must be mutation of names in the village registers A small fee is charged for this under the Land Revenue Act. I think this is a perfectly legitimate source of taxation. It will not create any trouble in administration

Q.—Are there any documents on the registration of which it would be fair to charge something more? For instance, transfer of property and so on?

A.—You have to pay a stamp duty on transfer and the fee has been increased. These are only administrative acts and they do not require any legislative sanction.

Q.—Do you think that the revenue that is being got from that source is as much as it can be or do you think that there can be something more?

A.—Something more can be had, I should think

Q.—What do you say about the recent increase in court fees?

A.—Nobody feels it. Litigation is more or less a gamble. Once a man gets involved in it, he will spend any amount to gain his object. My advice is often disregarded and cases are filed which should never be filed.

Q.—You do not think that there is any denial of justice through the increase of court-fees?

A.—I do not. The percentage of increase is small The Court Fees Act was passed in 1870, and since then the value of everything has gone up, and why should there not be an increase in the revenue? The cost of the administration of justice has largely increased.

Q.—The increase is not proportionate to the general rise of prices?

A.—No; it is not, I think

Q.—With regard to excise, are you an advocate of prohibition?

A.—No; I am not. Because you can never stop drinking by mere abolition of the excise duty. There will be illicit distillation from one end of the country to the other Every household can have illicit distillation It is very easy.

Q.—Is it reaching that stage already?

A.—I do not know. The Revenue Officers say that illicit distillation is increasing

Q.—At present the people who take to illicit distillation are punished by means of fine. Can that stop the illicit distillation?

A.—I do not know how it can stop it, because it pays the man This habit of drinking is very strong in some of the classes, and you can never stop it It will take years and years of educative propaganda

Q.—Suppose you provide, as other provinces do, for a maximum amount of imprisonment. What is your opinion about it?

A.—I do not see how you can stop it by these methods We have to change the mentality of the people. Till now some good has happened in this direction. Formerly, no caste panchayat could take place without drink and that was also the case with some festivals like marriages, etc But now that has been stopped No drink is given at panchayats That is the only good that has resulted up till now In order that this may abide, a public opinion against drink must be created. That is the only effective method of stopping this ruinous habit.

Q.—What is your opinion of the net gain or loss to the community that results from such a restriction of shops and increase of prices, coupled with the policy of punishment which fills the jails with these people?

A.—I do not think you can make the people temperate by this sort of artificial means It is not possible to do it. After all for one man who is

honest there will be a dozen dishonest people You would have to maintain a regular army of spies and inspectors and such agencies to detect cases of illicit distillation. And what harassment it will lead to? They say it is the simplest thing in the world to prepare liquor. When the man is preparing illicit liquor and the detectives are at his door, he will just throw away the contents of the pot and put in it some grain and say "I am cooking my food." So you cannot detect it. Moreover, if any man goes to the village for purposes of detection, the whole village will be up against him and he will be maltreated, perhaps murdered This will happen in jungly villages among the aborigines

Q—Am I right in thinking that it is a choice between two evils, one allowing and the other creating a number of criminals?

A—It comes to that. After all these poor people want something after their day's hard labour, although in some cases this is carried to an extreme length Unless you substitute something for these liquor shops where these people can go and refresh themselves, things will go on as they now go on. In England, I think, they are trying to have coffee houses and no such attempt is being made here

Q—As you go about, have you seen much of drunkenness?

A—Very seldom you come across it here

Q—Have the evils of drunkenness been brought to your notice in the course of your profession?

A—No

Q—Any moral deterioration of the people?

A.—I do not think so.

Q—Can you compare the state of affairs now with what it was when you were a young man?

A—It is very difficult to say, because of late I have not been going about. But I do not believe there has been any deterioration

Dr. Paranjpye. *Q*—Do you think that the people spend money on drink which ought to be properly spent on their food?

A—Not among the higher classes But among the lower classes, they do spend a lot on drink, which ought to be spent on their food

The President. *Q*.—Would the stoppage of drink result in a large increase in the taxable capacity of the people?

A.—In the first place you can never stop drink. You know even our Gods had their favourite drink. And even if you can stop it, it will not result in an appreciable increase in the taxable capacity of the people.

Q—What do you say about a tax on tobacco?

A.—How will you tax that unless, as you have done in the case of opium and *ganja*, you restrict the cultivation and take control Every man can grow tobacco. They have got their house in the *abadi* and behind it there is often a small plot where they grow a small quantity of tobacco.

Q—May I suggest this? You can sell by auction the monopoly of vend in a tahsil and coupled with that you impose a limit to private possession—say two seers—and you provide that every person who wants to sell the tobacco must sell it to the licensed vendor. The licensed vendor, having the monopoly, would have a preventive force.

A—There may be trouble between him and the people of the locality who will always be against him. It is not like liquor.

Q—Suppose you allow something for private consumption?

A.—But where will you draw the line?

Q—In France they allow 5 tobacco plants for home consumption

A.—I do not know whether it will be worth the game. But if you can conveniently tax it, say at a small rate, I think you may attempt it

Q—It is a thing about which Government should be very cautious?

A.—Yes.

Q—What do you say about the salt tax?

A—I think it is a legitimate source of revenue Of course, if you make the rate very high, the price will rise.

Dr Paranjpye Q—You do not consider the present salt tax to be a great burden?

A—At least nobody feels it When the duty was first increased, there was a rise in price and it was legitimate on the part of the dealers to have done so. But that has now settled down

Q—Would the substitution of tobacco tax for the salt tax be a popular measure?

A.—It is very difficult to answer that Tobacco, of course, is a sort of luxury whereas salt is not a luxury Nobody can do without salt, although he can get on without tobacco, though people are as much addicted to the latter as to the former. But I do not see why one should take the place of another If you want tobacco tax, you can have it in addition to the salt tax

The President Q—What do you say about tax on succession and inheritance?

A—There is no such thing as succession in our Mitakshara joint families That is the difficulty As soon as a man is born, he acquires a right in the ancestral property, and when he dies the share or interest of the remaining members of the family is simply augmented.

Q—It is suggested that you should tax the share of the deceased member when he is more than a certain limit of age

A—Then you will have to make so many enquiries about the details. Moreover, except when there is a son, the share is distributed among the surviving members

Q—That can be easily done in these parts.

A—I don't think it is so very easy.

Q—Suppose it can be got over and administrative difficulties, if any, are removed Would you be in favour of the tax?

A—Yes It will be a legitimate source of revenue If a man dies leaving a lakh of rupees, there is no reason why his son or anybody else who gets the property should not pay a share to the Government It is a perfectly legitimate way of adding to the public revenues But I think that the administrative difficulties are many in the case of joint families

Q.—In the case of a joint family, what would you say to making an annual charge on the property?

A—But this will not be a succession duty but a tax on possession of property

Q—Has it been your experience that the increase in the income tax rates has tended to break up the joint Hindu family?

A.—How can that be?

Q—I think it was Pandit Malaviya who said in the Assembly that the new tax sounded the death knell of the joint Hindu family.

A.—That may be a fine phrase to put before the Assembly. But I do not see how that can be.

Q—It resulted in so many partitions in order to escape income-tax.

A.—I do not think partition is ever made simply to evade income-tax, at least not in this province.

Q—Would the imposition of succession duties have any effect of that sort?

A—If the property is split up into shares, then duty will have to be paid on the shares

Q—That would be if the succession duty is only on the shares; but it has been suggested that you should tax the whole estate on the death of the managing member.

A.—Then the others will say "We are not dead, why do you tax us"!

Sir Percy Thompson *Q*—Is not generally the headman a man of fairly advanced years?

A—Not necessarily Seniority is, no doubt, a qualification, but generally the most capable member of the family is made the head

Dr. Paranjpye. *Q*.—Is the manager system existing in these parts?

A—Yes But, of course, the old system is gradually dying out

Q—You do not find any second cousins or members of that sort in the joint family?

A.—You are right there.

Q—Whenever the family becomes big and the relationship more and more remote, the family gets separated into a number of smaller families?

A—Yes.

Q.—So the difficulty is not so great now as it was, if you want to find out a system of taxation.

A—But you find that though several brothers quarrel among themselves and live apart, especially because their females disagree, they do not divide the estate The estate remains joint, though they live and mess separately.

Q—Have you ever considered a proposal that has been made to us that the registration of marriages should be made compulsory and a fee levied on them?

A.—No But if you do that there will be a great row.

The President *Q*—It is really being done now by District Boards in the case of Muhammadans in the Punjab.

A.—Among Muhammadans marriages are a matter of contract. They have to go to a *Qazi* and they have to pay a certain fee to him and perhaps something more is added to it as a tax The machinery is there and you utilise it.

Dr Paranjpye *Q*—We have in Poona a tax on musical instruments when they are played in streets We know that marriage processions will not go out without music. So a tax on musical instruments means tax on marriages Those who engage the musicians have to pay the fee

A—I cannot say anything as to that.

The President. *Q*—Another suggestion is that you should levy a tax on dowries

A—We have no cash dowries here. The presents are made in the shape of ornaments to the bride and you cannot tax them, without evoking great discontent.

Q—Does not a graduate son-in-law command a high price?

A.—It has not come to that stage here Even in Bengal the students do not now allow themselves to be sold by their fathers to the highest bidder.

Q.—Have you any views on the octroi and terminal tax?

A—I have very strong views regarding these taxes. I consider terminal tax better than octroi Octroi has special significance in this Province It has come down from the time of the Mahrattas and the people are accustomed to it. It will be very difficult to raise by any other tax the amount that is realised by octroi I take the example of Nagpur in respect of this tax. We raise about five lakhs of rupees net by octroi, which it would be impossible to raise by any other system such as house tax, etc If you introduce house tax in place of octroi, people will be subjected to numerous difficulties and harassments in the matter of assessment, etc. We have direct taxes such as water-rate and conservancy cess by which we realise about two lakhs and seventy thousand. The trouble we are put to realise this is much greater than in the case of octroi which gives us about 5 lakhs of rupees Of late, however, octroi has become a wasteful system because of the refunds Terminal tax is undoubtedly better than octroi. It is nothing but octroi on a few articles in general use at smaller rates without refund But the Government of India would not give us a free hand in imposing it It is only under the new Act of 1923 we have got power for its imposition and we are going to utilise this power. Under the octroi system, it is only 10 per cent of the people that pay and the remaining 90 per cent never pay.

Q—You say that only 10 per cent of the people pay?

A—Yes

Q—What class do they represent?

A—They represent the trading classes who are able to take care of themselves The tax is so small that there is no question of shifting the burden from one shoulder to another For instance, take grain, the octroi is only a fraction of a pie or so on a rupee No *bania* raises the rate of grain because he has to pay octroi on it at this small rate

Q—The value is regulated by the export price?

A—Yes

Sir Percy Thompson *Q*—You say you realise about five lakhs of rupees through octroi, and you also say that it is difficult to realise that amount by any other way Supposing the traders have got a fund out of which they pay this five lakhs of rupees, surely you can get it by some other way?

A—When they import into the town say, one hundred rupees worth of goods, they won't mind paying two and half rupees more, which is a little more than the octroi If you tax them directly, they will have to pay a much higher rate than this and they will feel it

Q—Supposing one man pays one rupee at a time, and in the course of the year he pays fifty rupees in this way?

A—Traders do this but they never complain They will certainly not agree to exchange this for a periodic recurring tax on their houses or on their income You may have profession tax if you like, but then it will have to be very high before you can raise from it five lakhs of rupees All these objections would disappear as soon as you introduce terminal tax It will be a small charge on the principal articles of consumption Octroi is objectionable because it has to be levied on the value of the article No doubt it is an unsatisfactory feature But in the case of terminal tax, you will realise on weight or carts

The President *Q*—You cannot have this tax unless the place is a railway station?

A.—I am only talking of places where there is a railway station.

Q.—Is there not much corruption due to octroi?

A.—Well, there may be some corruption But in Nagpur the administration of the tax has been well done There is very little corruption Of course it is impossible to keep out corruption altogether when you base it upon the value and the agency is low paid, as it must be

Dr. Paranjpye Q—People are subjected to delay especially if they do not pay something to the octroi assistant?

A.—If a hundred rupees worth of goods is brought by a man he ought to pay two and half rupees We shall say, he will go to the octroi clerk and ask him to value them at fifty rupees and they share the difference at the expense of the municipality

The President. Q—Why should you not levy octroi on the weight?

A.—That is because of the refund Otherwise there will be no difficulty in doing so In fact, the terminal tax we have proposed will be on weight.

Q.—Then you say that terminal tax can be levied where there is a railway station, why do you say so?

A.—Because of the trouble that will be saved by it When a man brings goods by the railway, his consignment receipt will show the weight of the goods he has brought and the municipal tax collector will levy a tax on this weight

Q—Is not the terminal tax levied on the carts?

A.—Yes, on goods coming by road

Q—I do not quite see why you should say that terminal tax cannot be imposed where there is no railway station?

A.—I say that it should be imposed where there is a railway station because it is more convenient, and also it will pay more, and then in small towns you cannot raise much by this In small towns there is the *haisyat* tax which is practically an income tax. In small towns you cannot have any other tax because it won't yield sufficient income It is only in towns where there is a railway station and large imports that you can expect good income out of the terminal tax.

Q—Does it not tend to become a transit tax?

A—I am opposed to this view because of this reason. For instance, Nagpur is a centre for imported articles for all the surrounding villages People who come here to purchase or sell their goods, enjoy the benefits of the municipal institutions, such as well-ordered roads and markets, water-supply, sanitation, etc, and they must pay for them. They must pay something for all these conveniences, and it is such a trifle that they do not mind paying it. In fact they do not know that they pay.

Q—Supposing the cotton dealers were to combine together and build a market just outside the municipal limits of Nagpur, what will you do in that case?

A.—I do not think that such a thing will ever happen here; because we have big centres of cotton trade here There are the two cotton mills, the great exporting English firms, numerous presses and ginning factories These will not go out of the town, and so long as they do not, the villagers bringing cotton from their fields will never find a good market for their produce anywhere except in the Nagpur municipal market Moreover, there are many facilities here, good water-supply, strict supervision over brokers, fire extinguishers, etc

Q—It won't be possible to have a cotton market outside the Nagpur town?

A.—I do not say it is impossible, but they won't do it. It will never pay them.

Q—They tell that it is being done in the United Provinces.

A.—I do not think anybody has made the attempt either in Nagpur or anywhere else in this province.

Q.—Does not that result in undignified squabbles as in Agra?

A.—Nothing like that has happened here at any rate

Q.—You have no tax on agricultural lands?

A.—No. Of course, there are some fields which formerly belonged to *malguzari* villages, but they have in large towns been turned into *bastis* and are being so converted with the growth of the town.

Q.—Have you any taxation on tobacco under octroi?

A.—Yes.

Q.—Have you any corresponding rates for the crops which are grown within the town limits?

A.—None is grown. Nobody would take the trouble of growing anything in the town

Q.—I would cite the Punjab where they had to impose a corresponding duty. In France there is an octroi on such kind of crops

A.—We have none here But we have octroi rates on tobacco, a higher rate on the manufactured and a lower rate on the unmanufactured article.

Q.—Can you justify octroi on economic grounds?

A.—The most convenient way of raising the tax is the question It is not a question of theory, but of practice most congenial to the people We have only to consider what is the best way of raising a revenue while giving the people the least trouble and herein lies the justification of the terminal tax.

Q.—You do not admit the charge that it is a rigorous tax?

A.—No On the other hand, it is a very popular tax in this part of the country If you were to give a choice to the people for any tax, they will unanimously cry for the octroi, better still, the terminal tax

Q.—In the village, does not the *mahajan* and the trader escape all the taxes?

A.—It may be so But in future he will have to pay for sanitation, education, etc., in the form of a cess. I think the commercial or banking classes do not pay anything for these objects just now in the villages, which are not municipal towns or sanitary areas

Q.—Still you have the village police chiefly for the protection of the banker?

A.—Yes You mean the village *kotwal* Everybody who lives in the village has to pay something to this *kotwal* It is levied on the lines of a cess There is no definite law on the subject It is by a sort of mutual agreement and long custom between the parties, though there is no law compelling anybody to pay it except in the case of agriculturists and landowners

Q.—Is *kotwal* a member of the thieves class?

A.—No Here he belongs to the depressed classes They are a decent set of people.

Q.—What do you think of taxing betel?

A.—The municipality has already done it. I do not think you will get much by way of an imperial tax from this. The difficulty is about taxing the whole country.

Q.—Do they sell betel and tobacco in one and the same place?

A.—I think so. They sell betel, tobacco, cigar and cigarettes and match boxes in one and the same place.

Q.—Would you approve taxes on patent medicines?

A.—There are very few of them in Nagpur. We have not got here patent medicines as in Calcutta. It is also very difficult to judge which is a patent medicine and which is not. I do not think it will bring much money.

Q.—What about advertisements?

A.—Certainly they can be taxed.

Q.—You can tax cinemas also?

A.—Yes. It can be taxed. I should like very much that the cinemas in Nagpur be taxed.

Q.—One of the witnesses said that it is a necessity of life from the point of view of education.

A.—That may be the ideal, but unfortunately it is not so in practice. It is not intended for that purpose, at any rate not in these parts I would certainly tax them Of course, cinemas used for educative purposes by school authorities should not be taxed

18th February 1925.

Lucknow.

PRESENT.

Sir CHARLES TODHUNTER, K C S I., I C S, President.

Sir BIJAY CHAND MAHTAB, G C I.E, K C S I, I.O.M., Maharajadhiraja Bahadur of Burdwan

Sir PERCY THOMPSON, K B E, C B.

The Hon'ble Sardar JOGENDRA SINGH

Dr R P PARANJPYE

Dr. L K HYDER, M L A.

Mr. B. D'O. DARLEY, C.I.E., Chief Engineer, Sarda Canal, Public Works Department, Irrigation Branch, United Provinces, was examined.

Written memorandum of Mr. Darley.

Q 15—The rates charged for irrigation in the United Provinces are based roughly on the quantity of water utilised by each class of crop Thus on the Upper Ganges and Jumna Canals where the rainfall is low and the demand for water great, the irrigation rates are high In Rohilkhand where the rainfall and spring level are high and the crops take fewer waterings, the rates are correspondingly low.

Of late years the value of the outturn has increased and the cost of canal maintenance has gone up enormously, while irrigation rates have not advanced in anything like the same proportion These rates are therefore low though the principle on which they are based is sound

Undoubtedly the best method would be to sell water by volume, but this is impossible owing to the difficulty of measuring the quantity supplied to each consumer and no simple form of meter has yet been devised except at a cost which would be prohibitive when the enormous number which would be required is taken into account There are about 60,000 outlets, each supplying numerous consumers and even if outlets could be provided with meters it would still be necessary to face the difficulty of assessing the quantity taken by the various cultivators supplied from each outlet

It is impossible to base irrigation rates on the actual cost of the canal which supplies the water The effect of any such arrangement would be that cultivators supplied by water from famine protective works, which are generally very expensive, would have to pay far more than those cultivating rich lands not subject to famine which can often be supplied with irrigation water at a cheap initial cost and which are in a position to pay far more than the poorer soils usually found where protective works are necessary

The proposal to increase the land revenue for "nahri" land would be very sound were it possible to give assured supplies every year In dry years when supplies are short, considerable areas must go without water or at least with reduced supplies In such years it would be a matter of extreme difficulty to assess the remissions which would be necessary and it is more equitable therefore to charge water rates on those fields which actually get water.

The canals having been built to supply water to certain areas, it would obviously be impossible now to alter this and give the water to the highest bidder. The present consumers have rights which cannot be denied and it would be impossible to withdraw water from areas which have received it in the past and give it to the areas where the owners bid higher

The present system is the best possible under the circumstances and it is only necessary to consider the rates charged now with a view to raising those which are inadequate

The following table shows the rise in value of the principal crops per acre in the last 20 years and the rise in the irrigation rates in the same period for the Upper Ganges Canal and Jumna Canal systems .—

Crop.	MEAN VALUE PER ACRE.			IRRIGATION RATES FOR FLOW IRRIGATION PER ACRE.		
	1903 04	1923-24	Percentage increase	1903-04	1923-24	Percentage increase
	Rs	Rs		Rs A. P.	Rs A. P	
Sugar-cane . . .	100	180	80	6 10 8	10 0 0	50
Rice	22	45	100	6 10 8	7 8 0	15
Cotton . . .	29	58	100	2 0 0	3 0 0	50
Wheat and Barley .	36	70	95	4 0 0	5 0 0	25
Gram	20	40	100	2 0 0	2 8 0	25

During the same period the working expenses of the Upper Ganges Canal have risen from Rs 10,64,499 in 1903 04 to Rs 19,40,665 in 1923-24, an increase of 82 per cent and other canals in proportion. In America the ratio of water rate to value of crop raised per acre varies from one-fifth to one sixth, while in Egypt the ratio is about one-seventh As will be seen above, the ratio for these provinces (except in the case of rice) averages about one-sixteenth

The cost of well irrigation varies with the depth of water below the surface, but roughly it may be said to average Rs 40 to Rs 60 per acre of sugarcane, Rs. 15 to Rs 25 per acre for wheat and barley and Rs 8 to Rs. 10 per acre for gram Compare these rates with those paid for canal water and it becomes at once apparent that the canal water rates are far below the commercial value of the water. The net profit from sugarcane is undoubtedly greater than that from any other crop and repeated attempts have been made to raise the rate for that crop to some figure more nearly approximating the value of the water supplied. The quantity of water utilized by sugarcane is about 3 times that required for wheat If therefore Rs 5 per acre is the correct water rate for wheat, the rate for sugarcane should be Rs 15 per acre and cultivators of this profitable crop could well afford this figure Over 300,000 acres of sugarcane are irrigated from canals every year and an increase in the irrigation rate would be a valuable asset to the Province

A Bill is about to be introduced in the Council fixing *irrigation rates* with reference to prices; unless prices rise or fall considerably no alterations will be possible in future without recourse to the Council. This is very reasonable it is only a pity that the rate for sugarcane cannot be fixed at a more reasonable figure before the Bill is introduced

Q 16—The State should certainly take a fair proportion of the increased value of land due to the introduction of new irrigation At present an owner's rate is charged equal to one third of the occupier's rate until the revenue rates are readjusted at the next settlement No owner's rate can be imposed in any village which has previously received canal irrigation—however small—prior to the last settlement, nor can owner's rate be imposed on any field classed as wet from any source at settlement, though such land may only be irrigated from earthen wells and the wet rate differ little from the dry rate, while the introduction of canal irrigation will enhance the value nearly as much as though the land had previously been dry. For these reasons the State does not get a fair proportion of the increased value of the land and the total amount of owner's rate levied during the year 1922 23 was only Rs 89,024 for the whole

Province, though the area receiving new irrigation since previous settlements was very considerable. No doubt this state of affairs will be adjusted gradually as settlements take place, but it is doubtful even then if it is possible for a Settlement Officer to increase the land revenue to the necessary extent to ensure that the State gets its fair share of the increased value of the land. The fixing of this fair share is a matter for the Revenue Authorities rather than for a Canal Officer, but I believe fifty per cent of the net increase has been recognised as the fair proportion in the past though it is doubtful as stated above if anything approximating this percentage has ever been taken.

Mr. Darley gave oral evidence as follows :—

The President. *Q*—You are Chief Engineer for the Sarda Canal only?

A—Yes

Q—Not for the whole of the irrigation of the province?

A—No

Dr Hyder. *Q.*—Regarding the system of charging rates for water, you first ascertain the area every season, then you ascertain the kind of crop that is grown and vary the charge according to the kind of crop grown and the logical deduction from that is, if there is no crop, there is no charge Does that represent accurately the system that is in force?

A.—Yes

Q.—You say that the cost of canal maintenance has gone up Could you give us some figures for the last five years?

A—I have given one figure for the Upper Ganges Canal. I haven't got the others here If you take them for the whole province, they will not represent exactly how the cost has increased, because new canals have been opened up and therefore it would look as if the cost has gone up by more than has actually happened The working expenses of the Upper Ganges Canal have gone up from Rs 10,64,000 to Rs 19,40,000 odd during the last 20 years. I shall send you a statement showing how the cost of maintenance of the various canals has increased

Q.—You say that the system of charging by meter is not practicable As an Irrigation Officer, do you make a distinction between the system of charging by meter and the system of charging by module?

A.—A module is not a meter It is to a certain extent a semi-meter, but not a real meter A certain quantity of water only can go through the module but it does not measure the amount which passes through

Sir Percy Thompson *Q*—You have to take into account the time factor in addition?

A—Yes

Dr Hyder *Q*—The Irrigation Commissioners reported on this matter and they thought that the system of charging by module was perhaps better

A—I do not know how you can charge by module unless you have some form of meter In a module the factor of time would not come in A module is a contrivance by which, whatever the head of water in the channel the outlet does not pass more than a certain quantity of water

Q—They make a distinction between module and meter and on account of the factors which you have mentioned they think that the United Provinces are not quite the province for the meter system, but that something should be done with the module system

A—How are you going to arrange this? There are about 60,000 outlets for which you can substitute modules Each one of these supplies a small village irrigation channel which in its turn supplies a number of consumers. How are you going to measure the water taken by each one of the consumers of that channel? If you had a big zamindar who was willing to pay for the whole village and afterwards collect from the tenants, it could perhaps be done

Q—Do you think such a system is practicable?

A—I am afraid it is not, there are generally so many pattadars that it is very difficult to tie one man down to collect the revenue of the whole village or distribute the water fairly.

Q—The pioneers of irrigation, Sir P. Cautley and Colonel Smith, gave a trial to this system and gave it up. They found that the difficulty was due to the fact that there were many consumers and that if the people had been organized co-operatively or if the water had been made over to the zamindars on some system of lease, perhaps the system of charging by volume would have had better results

The Hon'ble Sardar Jogendra Singh. *Q*—What about the Italian system?

A.—I am afraid it is not possible in these provinces at present. There would not be the co operation We have enormous difficulties in the distribution of water even between villages Say, for instance, we have an outlet which supplies three villages and the channel is open for a certain period. Each village gets its number of days in the week when it would be supplied with water.

Dr. Hyder. *Q*—May I suggest this? You give the water to the zamindar and you charge him a certain amount On the other hand, the administrative department fixes the maximum amount that the zamindar could recover from the occupier You will then avoid the difficulty of seasonal assessment every year and you will get quite a large sum from a few people

A.—How would you manage in dry years when certain consumers do not get the supply or certain zamindars do not get the full supply? Our canals are very different from those of the Punjab or Bihar. Here we have got a fairly high spring level and people can grow crops from well irrigation, whereas in the Punjab the spring level is so low and the rainfall so small that all the area sown has to be irrigated. Here, one portion of the village is irrigated one year, another the next and irrigation is also done by means of *katcha* wells. Irrigation fluctuates tremendously.

Sir Percy Thompson. *Q*—What is a module?

A.—A module is an outlet which is such that more than a certain quantity cannot get through it at a time.

Q—There is some device which makes the water constantly pass through, whatever the height of the water is.

A.—Yes.

Q—It is really a particular kind of outlet

A—That is so

The Maharajadhiraja Bahadur of Burdwan *Q*—If you had middlemen, *viz*, zamindars through whom the supply was arranged, would not there be this difficulty that some tenants would get more water than others?

A.—It is quite possible It is difficult to have such a system unless you have very active zamindars who look after their tenants properly.

Dr. Hyder *Q*—On page 330 of your statement you say that in America the ratio of water-rate to value of crop raised per acre varies from one-fifth to one sixth; while in Egypt the ratio is about one-seventh. The ratio for these provinces (except in the case of rice) averages about one sixteenth. Do you think it is quite fair to compare the United Provinces with Egypt? Is there nothing missing such as land revenue?

A—I am afraid I am not sufficiently conversant with Egypt to be able to say really whether it is fair or not

Q—You refer to a Bill which is about to be introduced in the Legislative Council and you say that the rates are to be based on the variations in prices If prices go up by a certain amount you will be entitled as a matter of course to vary the rates upwards by a certain percentage. The difficulty is that they are going to base the prices with reference to the figures given in the volume of Prices and Wages in India Do you think the figures in this are quite reliable?

A.—I think they are as near as they can possibly be As nothing will be done unless the prices increase by a matter of 12½ per cent, the margin is so great that if there is any small error it would not matter.

Q—The Settlement Officer who settled the Bulandshahr district says that it is not possible to separate the factor of irrigation from other sources which send up the values of crops I do not see how you are going to manage your affairs better by the system of fixing rates with reference to prices

A.—It is not ideal and I think that has been realized, but it is only way you can bring irrigation within the purview of the Council. It is reasonable. Unless the prices rise by 12½ per cent., we cannot increase our irrigation rates.

Q—Have you got a large amount sunk in the protective canals?

A—The capital expenditure at the end of 1924 on protective works was Rs. 2 crores and 91 lakhs

Q—Out of 13 crores?

A.—Yes, that is about the capital expenditure.

Q—People in districts like Aligarh, Bulandshahr, Agra, Muttra, etc, say that the rates are really too high They say that they give to Government a large amount of net revenue and even if you make allowances for the interest and maintenance c' [illegible] rge amount of revenue left over S [illegible] l money, not for the irrigation pro [illegible] these provinces is in financial diffi [illegible] cow for the Government Is that so?

A.—I would hardly say that Government has to raise revenue to run the country either by direct taxation or by commercial schemes, but it never takes the full value for the water which it gives If they do not pay water rate at the rate they are doing, they will have to pay in land revenue

Q—What do you think of a system of combining land revenue and irrigation charges?

A.—That is impossible unless you have assured supplies or you can irrigate the whole area every year I think it is possible to do that in Bihar and Orissa where they have assured supplies We have not got assured supplies here and the system would be very unfair because the cultivator will be very badly hit in the dry year

Q—Is the water rate suspended during a year when there is a lot of rain and the cultivator does not require water?

A—He only takes water at his will

Dr. Paranjpye. *Q*—When the cultivator does not want it and you can give him water, do you still charge him?

A—No

Q—Have you any permanent claimants who would take water, whether it is required or not?

A—They have it in Bihar and Orissa. We cannot enter into contracts for the supply of water, because we cannot be certain in dry years whether we can give water. In the dry years we divide the water as fairly as we possibly can I saw a report in the papers that one witness before you stated we closed our canals just at the very period when the cultivator wanted water. We are often attacked in this way, but it is only in a dry season when there is not sufficient water that there are complaints During such a season, if we ran all channels with the short supplies available we would be losing water all the time from every channel by absorption and evaporation It has been found that the cultivator will get much more water in the end by opening the channels in rotation with full supply, and therefore we now open the channels in rotation It may be that the cultivator wants it, but we have to close and he has to take his turn.

Q.—He knows when he will get water?

A—There is a roster Every one knows that he will get water every second or third week There is a patrol who is supposed to inform the villages when the canal is going to be opened

Dr Hyder *Q*.—There has been no alteration in owners' rates since 1918?

A—No The owners' rate is nothing The owner of the land gets off almost scot-free

Sir Percy Thompson *Q*—The owners' rate is practically a special attempt to increase the land revenue during the currency of a settlement?

A—Yes, as you cannot charge rate on any field which has previously received water from any source whatsoever It means that in a place like the United Provinces where there was well irrigation before canals were introduced, you cannot charge owners' rate on 10 per cent of the land irrigated.

Q.—And the owners' rate can be discharged when there is a resettlement?

A.—That is so.

Dr Hyder. Q.—As Irrigation Officer, have you anything to do with water cesses, over and above land revenue?

A.—We have nothing to do with these

The President. Q.—Does the owner collect something out of the land although he pays nothing to you?

A.—I am quite certain he does, but I have no proof.

Dr Paranjpye. Q.—How much corruption is there among the lower classes of subordinates?

A.—Nothing more than what there is among patwaris and subordinates of other departments

The Hon'ble Sardar Jogendra Singh. Q.—How do you arrive at the values of crops?

A.—We have our own statements of values of crops issued every year in the Supplement to the Administration Report. That, of course, varies from district to district and it is prepared by the ziladars and checked by the Deputy Magistrate.

Q.—The yields from land increase during the period?

A.—The yields have not increased, only prices have

Q.—You say that the produce from land has not increased, it is only the price that has increased. Does it mean that money has depreciated to that extent?

A.—That is a currency question.

Q.—Do you make any allowance for increased cost of production?

A.—Yes

Q.—I should like to know how you work out the figures showing the increase.

A.—I have not mentioned anything about the cost of production, because it varies to an enormous extent and it is very difficult to find what it is

The President. Q.—Your value per acre is gross?

A.—The statistics for sugarcane and crops that are issued every year show the outturn of crops in the various districts and the rate at which the produce is sold. I have given these gross figures.

The Hon'ble Sardar Jogendra Singh. Q.—You say that the value of sugarcane crops has increased 50 per cent. If you want to determine what the cost of production is at the same time, how would you do it?

A.—It is impossible to say. If one man cultivates his own sugarcane field, he uses his own bullocks which he has to keep in any case.

Q.—That represents labour.

A.—Would you include that in the cost?

Q.—It represents certain values. We are talking of the increased values.

A.—After I received the Committee's questionnaire, I asked for figures showing the cost of cultivation from two of our Deputy Magistrates and one of them has produced certain figures for Rohilkhand I can hand you over a statement showing the cost In the statement I have received, the cost for sugarcane to the cultivator is shown as about Rs. 115 an acre

Q.—Supposing the prices vary by 12½ per cent, it will make a case for increased water charge When you say that the prices vary by 12½ per cent. you have really to find out what profit the agriculturist is making.

A.—We are not working against that fine margin What I say is that we are charging Rs 10 per acre for sugarcane when the cultivator can well afford to pay Rs 15.

Q.—The cost of production has correspondingly increased, but the point is whether the increase which you are showing available for taxation is the real increase

A.—I quite agree that our irrigation rates are nothing like the rates the cultivator could pay. I hold that our irrigation rates are much less than the rates

for well irrigation. But I say some figure nearer the commercial value of the water is what the cultivator should have to pay

Q.—About the values which you have put forward you have not made any allowance so far as the cost of production has increased?

A—I have been very general in saying that the value of outturn has been very much greater

Q—You say that the value of outturn has been much greater, similarly, you will say that the cost of production has gone up correspondingly?

A.—I would not say that.

Sir Percy Thompson *Q*—Take the case of sugarcane In the year 1903-04 the value was 100 and it is now 180 You say that you have not included the cost of production Even supposing it has gone up to 80 per cent, is not your figure of 100 and 180 the ratio of the net value of the crop after the cost of crop has been deducted?

A—Yes

The Hon'ble Sardar Jogendra Singh. *Q*—Another point is your 80 per cent is only for one year Is it not?

A—If we take the average for the past 4 or 5 years the prices would be very much higher than 180

Q.—You have spoken of the American and Egyptian rates Have you discovered how they work out?

A—I have taken the figures from the text books When I speak of American and Egyptian rates, I have not worked out the details

Q—Can you give us the reference?

A—My reference is only to the proceedings when our irrigation rates were revised I will find out the original publications from which we got these figures and tell you, if it is required

Q—In charging water-rate, would you consider the question of holdings When you are working out the average rate of water-rate, would you not find out what holdings there are? If we take the American rates, the holdings there are very much larger There it won't trench upon the food which a man requires, here it might?

A—Quite possible But I do not see how the size of the holdings matters very much in this respect

Q—What would you declare to be the commercial profit from a canal or any other object? When you put a thing into the market, how would you determine the commercial value It is very indefinite

A.—That is purely a matter of supply and demand

Q—But it is determined on what it represents as capital, labour and so on The supply and demand are determined by certain things Would you apply the same in the case of water rates also?

A—I think the best way to find out is to compare the cost of canal irrigation in this province with the cost of irrigation from wells

Q—But that is not fair

A—I do not say it is altogether a fair comparison, but it is a useful guide

Q—*It is just like bullock cart rate compared with the railway rate* What should be the commercial value of water and on what basis it should be put forward?

A—You mean the capital outlay Sometimes we do not get even the working expenses from our canals I cannot think of any other way than to compare the canal irrigation rates with the well irrigation rates

Q—I want to know whether it is possible to sell irrigation water at the price of well water Can you charge the same rates?

The President *Q*—You say the rate of well irrigation gives an index of the commercial value of water, could you say that the irrigation water can be sold at a price equivalent to that?

A.—Not quite at the cost of the well water, but very near it I believe certainly in any year when there is a big demand it would amount to this

The Hon'ble Sardar Jogendra Singh Q.—40 to 60 rupees an acre for sugarcane is the average cost and the gross yield is 180 That is one-third basis. Where is the margin?

A.—Do you combat the figure that it costs him 40 to 60 rupees an acre from a well? The evidence I have received shows it does cost him 40 to 60 rupees to irrigate a sugarcane area from a well Of course a man has got his own cattle and this 40 to 60 rupees includes a large number of items. It does not cost him the whole sixty rupees in cash. He works himself, uses the village manure and supplies his own seed, etc.

Q—How many days labour he has to spend over this?

A.—He has got to give five waterings

Q—That would be about 20 days labour. 20 days labour would be about ten rupees. Then you are charging him the same as he would spend in the case of wells? What really matters is to determine exactly how much is the commercial value of water in a province and how much the capacity for a cultivator to bear?

A.—I think you can find it out only by actual experiment. We can find out the value of water by raising the irrigation rate till cultivation of that particular crop decreases, but of course this is not possible We sometimes have to stop irrigation near towns owing to anti malarial operations, etc Our canals run through these areas already and we cannot stop the cultivators taking water but they have to pay full rates for each watering For instance at Saharanpur we find people paying 4 or 5 times the rate.

Sir Percy Thompson. Q—You say 40 to 60 rupees is the cost of well irrigation for sugarcane. But this includes the cost of labour, services of oxen, etc. You cannot exclude either of the two factors?

A—Yes. But irrigation is generally done when the village cattle are not required for other purposes. He might perhaps hire out his cattle. I do not think it is quite fair to say that labour and services of cattle, etc, should be excluded when calculating the cost of cultivation

Dr. Hyder Q—You don't supply any canal water to the gardens in the compounds?

A—Yes, in certain cases there is irrigation of this sort

Q—Then you can easily find out the cost of keeping a garden with the well water drawn by bullocks and the cost of supplying water through the canals?

A—I think so

Sir Percy Thompson Q—Do you find ever people coming and saying "I am going to take water from the wells and I do not want your canal water"?

A—Never, I have never found people refusing our canal water

The Hon'ble Sirdar Jogendra Singh. Q—Do you think it would be fair if there is no other way of determining commercial value of water to fix a certain percentage on capital?

A—If you reduce the irrigation rates indiscriminately, Government must get money from somewhere to carry on That is largely the way the Government determines irrigation rates For instance we increased the irrigation rate for sugarcane from Rs 10 to Rs 12 last year and it was again brought down this year simply because we thought we could balance the budget without the enhanced rate There were a large number of agriculturists on the canal and they all wanted that the rate should be reduced and we did so from Rs. 12 to 10.

The Maharajadhiraja Bahadur of Burdwan Q—I refer you to page 330 where you say that the present system is the best possible under the circumstances and it is only necessary to consider the rates charged now with a view to raising those which are inadequate Therefore you hold that the prevailing rate is the best because it suits the local requirements and however rates might vary hereafter the system that is in vogue suits the Government as well as the people Then you say that the Government reduced the rates for sugarcane because the agriculturists or the class of people that represent agriculture in the local Council thought the rate was high and the Government having had sufficient funds reduced the rates from 12 to 10. But here in this province you have the two classes of canals, one the productive canal and the other the protective canal and I take it that your protective canals are as a matter of fact a dead loss to the Government, that is to say, you do not even collect your working

expenses. Regarding the productive canals, I ask you, what would be the best way of raising water-rates. That is to say, for instance, you being the supplier of water, you naturally so to speak hold the market; and in a certain area if a large number of wells could not be excavated the tenant or the landlords, in other words, cultivators, would have to rely upon water from the canals Therefore if you were to put rates even arbitrarily high unless it came to breaking point, they will have to take water because there is no help for it. I mean to say, take sugarcane, it was Rs 12 and it is now 10 What would be the average rate you think which would bear the test of the commercial value?

A.—In my opinion a cultivator would not feel it if he had to pay even 16 or 15 rupees an acre for sugarcane

Q—In other words supposing it is 10 rupees, your Government would be prepared to raise it up to 15 or 16 rupees or take it down to 10. Your maximum is 15 for sugar-cane?

A.—Yes That is my own personal opinion

Q.—Your opinion shows that the maximum rate could be raised to 15 if the circumstances required?

A—Yes

One point I would make clear is this. There are some crops which can be grown without any sort of irrigation and some crops need much less water than others If the sugar-cane rate is too high, the cultivator will take to wheat or barley or gram or *arhar* and so on He would not necessarily excavate wells if you put the rates too high He would grow another crop Of course it will be less paying too

Q—In the case of your *nahri* land, you say that you cannot assure every year the quantity of water that is required and your department would not be prepared to increase the rates for *nahri* lands

A—Because we feel it would be very unfair Moreover there would be tremendous cry in dry years

Q—Therefore you will not be inclined to increase the rates for *nahri* lands?

A—Yes

Q—What is meant by *nahri* land?

A—*Nahri* is land which is classed as wet at settlements That is the land which is now irrigated for two or three years out of every five from the canals It absolutely depends on the canal irrigation

Q—You are against selling water to the highest bidder Why?

A—You see the people having received supplies of canal water for a certain number of years, the land value has gone up You cannot now withdraw water from the lands without establishing a sort of legal claim against Government

The President. Q—Is the revision to be periodical or at any time?

A—It is quinquennial If the prices go up in 5 years more than 12½ per cent and less than 25 per cent, the irrigation rates can be increased automatically by 12½ per cent

Q—When the land is settled wet it simply means that it is normally irrigated?

A—Yes Two or three years in every five

Q—There is no guarantee?

A—No guarantee

Q.—Does it get preference?

A.—No In the case of shortage of water, our regular customers get the water automatically because their lands lie alongside small irrigation channels, those channels belong to the people themselves

Q—Has every man who wants water to apply for it?

A—No Ordinarily there is an outlet through the bank and when he requires water, he opens the outlet and lets water into the channel and if he does not want the water, he can see that it does not go into his field

Dr. Paranjpye Q—Do they take too much water?

A—The portion near the actual canal will as a rule get the first supply and often an unfair share of water and it is a difficulty which cannot be overcome.

The President Q—You have no means of securing full duty for the water?

A.—We do it as best as we can by giving an outlet of the right size.

Q—But that may irrigate 100 acres in one year and 200 acres in another.

A.—No, an outlet can only irrigate a certain area But generally in a normal year when there is enough water, people let the water run all night and before morning the fields will be filled with water. They don't care much even if water is wasted But when there is scarcity of water people sit up watching and as soon as a field is filled that outlet will be closed and it will be turned on to another field Thus an outlet may irrigate a bigger area one year than another

Q—There is no sort of means of saying 'here is an outlet of so many cusecs and that has got to provide for so many acres'?

A.—Yes, the size of the outlet depends on the size of the area commanded A 6 inch outlet will irrigate about 80 acres in the *Rabi* season We assume that we are going to irrigate a certain percentage of the commanded area and give the necessary vantage to irrigate that area.

Q—You cannot regulate the quantity according to the acreage irrigated?

A.—It is done automatically. We cannot give here the same percentage of irrigation as they can give in the Punjab and before a canal is constructed we assume that we will give irrigation for 35 to 45 per cent of the cultivable area in each village. The rest has to go on as in the past with irrigation from wells or from some other source.

Q—*How would you secure that only 35 or 40 per cent. is irrigated?*

A—By only giving sufficient vantage in the canal by means of outlets to irrigate this area.

Q—Suppose it is drawn up to 50 per cent.

A.—It is done sometimes just near the head of the canal

Q.—You have no system of guarantee and you don't require that a man who wants water should put in his application, as is done in some other provinces.

A.—We have that system only for rice cultivation, because it is irrigated in a large area in numerous fields The same water goes from one field to the other. So the cultivator cannot say I am only taking water to this field and not to that field We would have no means of checking if he did. If water is given to a certain area of rice, that is, to one of these depressions where rice is grown, the whole depression has to pay. For this reason it is necessary to give water only on application.

Q—Can't he get water by percolation and refuse to pay?

A.—That can be done here and there. We do not charge if he gets water by percolation And that would be a very tiny area not worth considering.

Q—It is possible that a man who has a field in the middle of other fields says that he does not want water; but when water passes to the other surrounding fields, he will also get water.

A.—The rest of the villagers will settle the matter. If a certain rice outlet is opened on application the whole lot would pay for it.

Q—The charge is made upon the subsequent inspection of the crop?

A—Yes; in the case of rice all are charged inside the area for which the application has been made

Q—Suppose you have a well in the middle of an irrigated area which is practically fed by percolation.

A—We take no account of it We cannot charge any rate for that

Q—In the 2nd paragraph of your answer to Q 15 you say "These rates are therefore low, though the principle on which they are based is sound". What is exactly the principle?

A—The principle is that we charge by the crop Each crop takes its own amount of water. Sugarcane takes five waterings and wheat two or three waterings and so on

Q.—So your rates have regard to the quantity of water and not to the value of the outturn?

A—Yes But both the principles are taken into account. For instance, if we charged for rice on the value of the outturn, we would have a much lower rate But it takes a vast amount of water and so we charge more

Q—Have you uniform rates all over the province?

A.—No They are very much lower in the case of protective works. In Rohilkhand also where they take much less water the rates are low It is only in the major canals, the Upper Ganges and the Eastern Jumna canals that we have higher rates. For sugarcane in Bundelkhand we charge Rs 5 per acre and on the Upper Ganges it is Rs. 10 per acre

Q—Is the yield less there?

A—The Government there encourages them to take the water It helps them. They were very hardly hit in the past by famines

Q.—Is your policy going to be to level up as opportunities occur or do you contemplate that the rates must always vary?

A—The rates must always vary. We will always have to charge a lower rate in Rohilkhand There are four sets of rates in that canal division. In Naini Tal where there is a rainfall of 60 inches a year, we have very low rates As we go south and the rainfall decreases the rates increase

Q—Is it because the demand is low? Is it feared that unless the rates are low they won't take the water?

A.—The demand is only once or twice in the year.

Q—Does not this one watering give an increased value to the crop?

A.—Even without that watering they can get a crop, but not of the same value.

Q—Don't you aim at a uniform rate? That was what the C P have done.

A.—The question has been discussed time and again and it has always been held that it would not be fair to have a uniform rate and that you must have a varying rate according to the demand of water and the quantity supplied and the benefits derived All these factors are taken into account. Our rates vary with the depth of the water used except in the case of sugarcane In the case of sugarcane if they paid by volume they must pay at least Rs 16 as compared with Rs 5 for wheat

Q—You do not take the cost of the particular work into account?

A—No; not at all.

Q—Do you treat your enterprises as a whole? Do you make your productive works pay for your protective works?

A.—That question has never been considered

Q—Don't you put up to the Finance Department that a certain irrigation enterprise is paying, say 10 per cent, so that they may take up another protective work?

A—A protective work is generally undertaken out of savings But since the war we had to suspend these works

Q—Won't they tend to become productive?

A—Some tend to become productive Take the Rohilkhand canals they have become productive and a large number of canals will in course of time become productive

Q—Have you any private works in your province?

A—There are a certain number of small private works

Q—Do you know what they charge?

A—There are a large number of zamindars for instance, who own tanks and they charge people They pay a small sum to the zamindars for lifting water from these tanks In Benares there are a certain number of them

Q—Under the new Bill the rates will come under consideration periodically?

A—Yes, every five years.

Q—And you never get a full commercial value?

A.—I don't think Government aims at that.

Q. 33.—I think the income-tax is pitched high enough, but better measures should be instituted to prevent evasions of the tax—false returns and evasions are widespread.

Q. 35.—I think there should certainly be some diminution in the tax on earned incomes

Q. 36—I don't think so.

Q. 37.—I think that the super-tax on the profits of a public company should bear some relation to the ratio of profits to capital. A company which has earned a profit representing 75 per cent. of its subscribed capital should pay a higher rate of super-tax than one which has earned only 5 per cent of its capital.

Q. 38—I see no justification for the income from agricultural operations being exempt from taxation.

Q. 40.—Yes, I think the exemption limit is pitched much too high, I would suggest a reversion to the Rs. 1,000 limit. An Indian on Rs. 1,000 may be much better able to pay tax than a European on Rs. 2,500

Q 41—I think the administration of the Income Tax Act is now much more efficiently carried on, but even now many officials administering the Act are lamentably deficient in the knowledge of their work.

Q. 42.—I think a standard form of account for income tax purposes would be an excellent innovation

Q 43—I see no objection to the publication of income-tax assessments, being an honest person.

Q 45—I think this is worth consideration, but arrangements should be made for embossed stamps of small size, as debenture coupons are very small.

Q. 61.—I do not think that India will ever adopt prohibition either locally or universally

Q 62—None of the suggested alterations for raising the revenue now obtained by the taxation of intoxicants seem to me to be satisfactory or in the interests of the general public.

Q 63—I am not in favour of any further attempts to reduce the consumption of wholesome intoxicants, such as rum, by raising the cost of such intoxicants; because this will merely lead to an extension of manufacture and sale of intoxicants by illegal means

Q 65—I think that the Government's policy of raising the duty on country spirits has already been carried too far, and has brought nothing but evil in its train.

Q. 66.—Most certainly.

Q. 67.—If locally made sophisticated liquors are proved to be as free from deleterious ingredients as similar liquors which are imported, I think the former should be given some measure of protection in the incidence of excise.

Q 68—Not unless this was accompanied by a compensating reduction in the Customs duty.

Q. 69—The provincial duties on foreign liquors should be made uniform throughout India.

Q. 71.—I see no reason for the great variations in the rate of tax in certain provinces I see that Bihar and Orissa levies the same rate of duty.

Q 72—The central distillery system for the manufacture of country spirit has undoubted advantages as compared with the system which it superseded of groups of small individual distillers

Q 73—I do not see how the present system for licensing the retail vend of intoxicants be improved upon, but with the reduction in the number of such licenses, the license fees might be increased

Q 82—I think that substantial revenue could be secured without any injury to Indian trade by the imposition of an export duty on raw cotton, oil-seeds and raw jute The first named is largely bought by a country which competes severely with Indian production with goods manufactured from Indian raw material. An export duty on oil seeds would tend to stimulate the treatment of oil seeds in the country, and the conservation of the cake for fertilizing purposes. Raw jute is a monopoly which the Dundee Mills must have.

Q. 83—I think that in the case of some articles in the tariff, a duty calculated on weight would have advantages This is specially the case with refined sugar

Q. 88—I think a large amount of revenue could be derived from increased death duties The present rate of duty seems to me to be very inadequate

Q 89—I would recommend all judicial proceedings being taxed as highly as possible, so as to become an effective deterrent to litigation.

Mr Shakespeare gave oral evidence as follows:—

The President. Q—You are the Chairman of this Association?

A—Yes, Sir I think I could save some of your time if I say at the outset that a good deal of what is set out in my written statement is not concurred in or shared by the members of the association I should think except with regard to excise, in which some of the members are interested, and joint stock company taxation, the rest represents my personal opinion.

Q.—You begin with a short note and I take it that it is a summary of your views on the whole subject It would cover the whole subject if we begin with that First of all you say that the Income Tax Act requires reforming in many directions and that every person having taxable ability should pay some sort of direct personal tax Your second point is that tangible property by whomsoever owned should be taxed by the jurisdiction in which it is located. Lastly, business carried on for profit in any locality should be taxed. I do not think it is echoing the passage quoted in our questionnaire. I think it is merely a coincidence

A—It is merely a coincidence

Q—The National Tax Association has prepared a scheme of taxation. Their first proposal is the levy of a personal tax on everyone for the upkeep of the Government under whose protection he lives The second is the levy of a tax on property without regard to ownership or personal condition

A—That is my view

Q—Finally they suggest a tax on business I think it is merely a coincidence that your three propositions are almost exactly theirs What would you suggest about the method?

A—We have them existing in different forms at present.

Q—Let us take direct taxation first.

A—That is the taxes *per capita* as in the case of the income tax, the super-tax on individuals and others, the profession tax, tax on trades All these would cover that

Q—You are opposed to anything like a poll-tax

A—That is generally a tax outside the income-tax

Q—In this province does the village moneylender come in under any of these taxes?

A—I take it that if the money-lender is a honest man he will come in.

Q—If his income is less than two thousand rupees?

A—He escapes

Q—Is there any class that does not pay its share?

A—I am doubtful in the case of shroffs, the private bankers and the brokers. We are always receiving requests from the income-tax authorities to give them information about these people. By way of brokerage we pay them large sums of money I suppose they are trying to trace out such people whose income by way of brokerage or commission must be very considerable

Q—You are speaking of the host of middlemen.

A - Their number may be small or large; but in many cases their income is a very large one.

Q—What you would advocate is greater activity and attention on the part of the income-tax officers?

A —That is the whole idea in my mind

Q —What about the people below the exemption limit of income-tax?

A.—I think the exemption limit is pitched much too high. I do not know whether a large number of persons are not avoiding every form of direct taxation. Of course, they may pay taxes in other ways in having to purchase taxable articles

Q—What is your idea about local taxation?

A —I refer to such forms as the house tax which is a local tax. I think it is a very legitimate form of taxation. I do not know certainly about country houses outside municipal limits, but I do not think house tax is being collected outside municipal limits

Q —Is it a fact that land which is used for building purposes escapes land tax?

A.—I do not know whether there are many cases of large building properties in rural areas. I do not think the district boards levy anything on house properties

Q —Do you advocate it?

A.—I suppose it could be done

Q —I think it is done in other parts of India Do you propose the rate on the property or on the income?

A —Of course the assessment should depend on the rental value of the property.

Q —I rather judged that you contemplated taxing the income from the sale of lands.

A.—I do not think unearned increment on house property should escape but I admit you could not easily tax the house in the village I think the levy on the unearned increment is a feasible one Moreover the house tax in municipalities is extraordinarily low In the case of Cawnpore I think it is 4½ per cent on the rental value

Q —As against over 100 per cent elsewhere?

A.—I may be wrong, it may be 6½ per cent. At any rate it is a relatively low tax and is the same as the water tax in the case of Cawnpore

Q —Your third proposition is that business carried on for profit should be taxed Do you mean the French tax?

A —Something like that

Q —A tax based upon the capital and the number of workmen employed?

A —Yes.

Q —You would not object to paying it in addition to the income-tax?

A —I would not like to see the incidence of the income-tax increased

Q —Your scheme seems to be extraordinarily similar to the Committee's proposals Your next proposition is that total separation of provincial from central taxation is not to be advocated. You do not like the present system under which each Government takes particular heads?

A —No I do not like that system

Q —You go on to say that excise should be made Imperial?

A.—Anyway as regards its organisation and rating I do not think I would like one province to go and exploit another. It goes on now. This province started imposing an export tax on spirits exported to other provinces and it has greatly embarrassed us who had contracts running with Indian States

Q —What is the amount of export tax?

A —It is nothing very much. It is two annas per proof gallon

Q —Is not the object simply to recoup the cost of their staff?

A —All the same it is quite a novel and sudden innovation Nobody knew anything about it Personally we were involved in this way. We had very large

contracts running to hundreds of thousands of gallons with certain Indian States. We wrote to them soon after the introduction of this levy and they said that they would not pay it

Q—Is it not a sound proposition that the province of origin should levy the excise to be transferred to the province of consumption and is not the Government entitled to be recompensed for anything that they may spend to maintain a large excise staff to look after the production?

A.—When you get it out of the unfortunate consumer it may be all right, but as it is, we cannot pass it on We can do it only in our next contracts. That will lead to competition. If it is going to be done it ought to be applicable to all.

Q.—It is, is it not?

A.—I do not know

Q.—Originally Government tried to levy this as a kind of octroi tax and then as a result of a conference this arrangement was come to, *viz.*, that they should recover through the cost price a sum sufficient to pay the staff.

A—I would like to see the whole thing unified.

Q—Have you thought out how the tax should be distributed in a Federal State?

A.—No, probably it would not be feasible It depends on the question whether you are going to appropriate all the tax and then divide it up

Q—We are now looking for the best arrangement

A—Excise taxation is a very difficult problem The duty has now been raised to such a tremendous height that it is very difficult to solve it

Q—Have you thought out how it should be distributed in a Federal State?

A—I have not

Dr Hyder Q—With regard to questions 4 and 5 regarding the compilation of statistics, you think they are suitable?

A—I think the form is suitable

Q.—But the results?

A—Well, of course, they are greatly delayed in many cases

Q—Are the results accurate?

A—In the case of crop statistics we know of enormous variations

Q—You are interested in sugar May I ask you how you would estimate sugar? I think it is one of the crops which is very difficult to estimate

A—The outturn is very difficult to estimate, but I think the statistical department authorities ought to be able to tell us much earlier than they do at present the area of cultivation under any particular crop, which is very important information To my mind they unduly delay the publication of the area of cultivation and it is published much too late By the time the crop is half ripe they publish the area report I think the form is all right

The President Q—Do you know how it is done in other places?

A—Look at America and their cotton crop We have their figures extraordinarily quickly after sowings are complete

Dr Hyder Q—You will estimate the sugar crop in terms of juice or sugar?

A—For the purposes of each district I would adopt the method followed locally What I would like to see is that they do not delay the publication of the area of cultivation The area is generally known to the village patwaris by the 15th March We ought to have the area report at least in June The first condition report might be issued on the 15th October and the final one in December.

Q—With reference to question No 13, you say that commercial returns should always be aimed at in case of Governmental undertakings such as canals

A—That, of course, is a case where there is no private enterprise concerned In such cases it does not matter how Government deal with the return. But in cases of competitive undertakings such a principle should be adopted I have

in mind a large Government factory in Cawnpore which I believe never brings out its balance sheet according to commercial practice When it came to competition figures were not available. That is what I had in my mind and not such Government undertakings as the canals.

The President. Q —Posts, telegraphs and railways are the same.

A —There would be competition in the case of public tramways unless there is a private monopoly We are managing a tramway undertaking in Cawnpore and nobody has any right to lay down rails within our licensed area

Q —You are taxed on your profits.

A.—We have to pay a track rent, that is to say, we have to pay for the right to lay down track along public roads

Dr. Hyder Q.—With reference to question No. 15, you say that you do not think that the charges for canal water should be raised I suppose you are confining your remarks to the conditions of this province

A.—This is the one I know about.

Q —In the Punjab and here we find that it would cost the cultivator a good deal more if he were to irrigate his land by means of a well than it costs him with the canal water Comparing these two costs the water rates cannot be raised if the other alternative source is cheaper.

A —I think co-operative tube wells would be as cheap, if not cheaper There is a tremendous waste in the case of canal water. In this province the present method of irrigation is having an effect on the fertility of the soil and in some areas the situation is getting very grave.

Q —What do you think is the reasonable charge for a tube well per acre?

A —With reference to figures we have before us as regards the conditions in Bihar where we are sinking these wells, one ought to be able to give about 10 waterings to a sugarcane crop for about 6 rupees per acre with a very economical plant As long as one can obtain water within a depth of 300 feet it should not cost more In Bihar we have got an ample supply of water at under 200 feet

Q —How does it compare with the canal charge?

A —I think the latter is Rs 7-8 0 per acre

Q —Do they give you 10 waterings?

A —It may be 10 or 12.

Q —So your rate for sugarcane would be Rs 7-8-0?

A —The object is primarily to secure the sugarcane growth and carry it over the dangerous period before the monsoon, when the crop is at the mercy of the elements We are going to put these wells down as a protective measure, not really so much to increase the yield of the crop as to protect the crop from destruction between April and June in years of drought.

The President Q —Whether the quantity of water is much less than the quantity of water from the canal, I do not know You have to irrigate the fields. Whether you do it through the distributary of a canal or from a pump I do not think it would matter very much. It depends upon the nature of the soil more

A —Government in these Provinces is doing a great deal of work in connection with tube wells by means of a special department. Up to now they have not been adopting the right method Modern practice has given up the use of tools and they simply force water at a tremendous pressure by high pressure pumps. This is the latest system The tool system of boring is very slow.

Q —Is it not very expensive?

A.—Yes, but some are doing it very successfully

The Hon'ble Sardar Jogendra Singh Q —Do you cultivate any sugar?

A —Not in these provinces

Sir Percy Thompson. Q.—Would it cost less if you used tube wells?

A.—If you work over large areas. We have found artesian action in cases of wells which are near the hills, but we find we have to pump as well.

Q.—Where you have to pump you include the cost of power. Once you sink the well then there is the question of distribution, viz., how far the lands are from your central pumping station

A.—If you have got to go very deep with big tubes then the capital cost is of course very heavy. But in Bihar there is an ample supply of water at a depth of 200 feet.

Q.—Assuming that the United Provinces is suitable for tube irrigation, would you say that it would be more profitable to have tube wells than canal irrigation.

A.—There is no doubt of the effect the latter will naturally have on the fertility of the soil. Some years ago I went to inspect a big property in the Punjab It was discovered from the condition of the surface wells that the soil was becoming impregnated with salt from the sub-soil and we concluded that in a reasonable number of years the fertility of the soil would be seriously affected

Dr Hyder Q—In answer to question 16 you say that the return might suitably take the form of an increase in land revenue for a term of years

A—What I had in mind was a case where a property was useless for some crop without irrigation, and when the Government did make it useful by providing the necessary irrigation facilities they might well ask for an enhancement in the revenue.

Q—Your land revenue then would be made up of two items, first the land revenue pure and simple and then the additional sum—both to be consolidated together

A—Once in ten years or so the Government might fix the additional sum In cases of new canal schemes such as the Sarda Canals I do not know how it is to be done

The Maharajadhiraja Bahadur of Burdwan Q—In reply to Question 10, you say that if land revenue does not bring under this tax profits on sale of land, it should be made to do so If a man sold his land and invested it in 5 per cent debentures, would he have to pay income-tax?

A—The interest on the investment would be taxed, not the capital Unless the 5 per cent debenture were issued income tax free, he would have to pay the tax

Q—If a man had a bit of land which he wanted to dispose of by sale?

A—I am not sure if profits on land are taxed

The President Q—I take it you are speaking of the unearned increment?

A—There is a question whether profits on share transactions should be taxable

Q—Capital transactions?

A—Suppose you make Rs 50,000 over and above what you buy a stock for

Q—If you tax that, you would have also to allow for all your losses in speculation

A—Yes, that is what makes such transactions outside the pale of taxation.

The Hon'ble Sardar Jogendra Singh Q—Then you do not think it is practicable?

A—No

Q—Can you give approximately your cost of production for sugarcane?

A—In Bihar it must be about Rs 80 per acre

Sir Percy Thompson Q—Can you say approximately what that cost ten years ago?

A—About Rs 36, but we now plough and cultivate with tractors Tractors are more expensive, but you get a better yield from the crop With tractors, I do not think it would be less than Rs 80 (without irrigation)

Q—But would it be less than Rs 80 without tractors?

in mind a large Government factory in Cawnpore which I believe never brings out its balance sheet according to commercial practice When it came to competition, figures were not available That is what I had in my mind and not such Government undertakings as the canals.

The President Q.—Posts, telegraphs and railways are the same.

A.—There would be competition in the case of public tramways unless there is a private monopoly. We are managing a tramway undertaking in Cawnpore and nobody has any right to lay down rails within our licensed area

Q—You are taxed on your profits.

A.—We have to pay a track rent, that is to say, we have to pay for the right to lay down track along public roads

Dr. Hyder Q.—With reference to question No. 15, you say that you do not think that the charges for canal water should be raised I suppose you are confining your remarks to the conditions of this province

A.—This is the one I know about.

Q—In the Punjab and here we find that it would cost the cultivator a good deal more if he were to irrigate his land by means of a well than it costs him with the canal water. Comparing these two costs the water rates cannot be raised if the other alternative source is cheaper.

A.—I think co-operative tube wells would be as cheap, if not cheaper. There *is a tremendous waste in the case of canal water. In this province the present* method of irrigation is having an effect on the fertility of the soil and in some areas the situation is getting very grave.

Q—What do you think is the reasonable charge for a tube well per acre?

A—With reference to figures we have before us as regards the conditions in Bihar where we are sinking these wells, one ought to be able to give about 10 waterings to a sugarcane crop for about 6 rupees per acre with a very economical plant As long as one can obtain water within a depth of 300 feet it should not cost more In Bihar we have got an ample supply of water at under 200 feet.

Q.—How does it compare with the canal charge?

A—I think the latter is Rs 7-8-0 per acre

Q—Do they give you 10 waterings?

A—It may be 10 or 12.

Q—So your rate for sugarcane would be Rs 7-8 0?

A.—The object is primarily to secure the sugarcane growth and carry it over the dangerous period before the monsoon, when the crop is at the mercy of the elements We are going to put these wells down as a protective measure, not really so much to increase the yield of the crop as to protect the crop from destruction between April and June in years of drought.

The President Q—Whether the quantity of water is much less than the quantity of water from the canal, I do not know You have to irrigate the fields. Whether you do it through the distributary of a canal or from a pump I do not think it would matter very much. It depends upon the nature of the soil more.

A—Government in these Provinces is doing a great deal of work in connection with tube wells by means of a special department. Up to now they have not been adopting the right method Modern practice has given up the use of tools and they simply force water at a tremendous pressure by high pressure pumps. This is the latest system The tool system of boring is very slow.

Q—Is it not very expensive?

A—Yes, but some are doing it very successfully

The Hon'ble Sardar Jogendra Singh. Q—Do you cultivate any sugar?

A—Not in these provinces.

Sir Percy Thompson. Q.—Would it cost less if you used tube wells?

A.—If you work over large areas We have found artesian action in cases of wells which are near the hills, but we find we have to pump as well.

Q—Where you have to pump you include the cost of power. Once you sink the well then there is the question of distribution, *viz*, how far the lands are from your central pumping station.

A.—If you have got to go very deep with big tubes then the capital cost is of course very heavy. But in Bihar there is an ample supply of water at a depth of 200 feet

Q—Assuming that the United Provinces is suitable for tube irrigation, would you say that it would be more profitable to have tube wells than canal irrigation

A.—There is no doubt of the effect the latter will naturally have on the fertility of the soil. Some years ago I went to inspect a big property in the Punjab It was discovered from the condition of the surface wells that the soil was becoming impregnated with salt from the sub-soil and we concluded that in a reasonable number of years the fertility of the soil would be seriously affected

Dr. Hyder Q—In answer to question 16 you say that the return might suitably take the form of an increase in land revenue for a term of years.

A—What I had in mind was a case where a property was useless for some crop without irrigation, and when the Government did make it useful by providing the necessary irrigation facilities they might well ask for an enhancement in the revenue.

Q—Your land revenue then would be made up of two items, first the land revenue pure and simple and then the additional sum—both to be consolidated together

A.—Once in ten years or so the Government might fix the additional sum In cases of new canal schemes such as the Sarda Canals I do not know how it is to be done

The Maharajadhiraja Bahadur of Burdwan Q—In reply to Question 10, you say that if land revenue does not bring under this tax profits on sale of land, it should be made to do so If a man sold his land and invested it in 5 per cent. debentures, would he have to pay income-tax?

A—The interest on the investment would be taxed, not the capital. Unless the 5 per cent debenture were issued income-tax free, he would have to pay the tax

Q—If a man had a bit of land which he wanted to dispose of by sale?

A.—I am not sure if profits on land are taxed

The President Q—I take it you are speaking of the unearned increment?

A.—There is a question whether profits on share transactions should be taxable

Q—Capital transactions?

A—Suppose you make Rs 50,000 over and above what you buy a stock for

Q—If you tax that, you would have also to allow for all your losses in speculation

A—Yes, that is what makes such transactions outside the pale of taxation

The Hon'ble Sardar Jogendra Singh Q—Then you do not think it is practicable?

A—No

Q.—Can you give approximately your cost of production for sugarcane?

A—In Bihar it must be about Rs 80 per acre

Sir Percy Thompson Q—Can you say approximately what that cost ten years ago?

A—About Rs 36, but we now plough and cultivate with tractors Tractors are more expensive, but you get a better yield from the crop With tractors, I do not think it would be less than Rs 80 (without irrigation)

Q—But would it be less than Rs 80 without tractors?

A.—Yes, using bullock drawn ploughs.

Q—By the same method 10 years ago as compared with now?

A.—You can say about Rs 67 with tractors.

Q—Suppose 10 years ago it cost 'X' rupees to grow an acre of sugarcane, how much would it cost now by precisely the same method?

A—I think you can add 75 per cent. to it The cost of all field labour has also gone up

Q- If it was then 100, it will now be 175

A.—I should say so.

Dr. Hyder—May I draw your attention to your answer to Q 20? Please explain the points contained in this argument. I do not understand them.

The President. Q—I will put it in the form of an instance Suppose one half of India went dry and the other half paid a crore of rupees in excise, would you spread that crore over the half or the whole of it? Is it part of their burden?

A—I suppose we all get more extravagant We accumulate more wealth, but are not therefore necessarily able to bear more taxation

Q—Take another instance Suppose we put on a heavy tobacco tax throughout India Would we be adding to the burden of the Sikhs who do not use tobacco?

A—Of course it will add to their burden They would say that they do not smoke and therefore why should they contribute to the burden in any way, but I think you must take the community as a whole.

Q—Is it a question of letting anybody off? When you are talking of the burden on the population, whom are you going to divide it over?

A—Certain taxes must in any way be divided over the whole population. But if a tax is of a very local character, it should not be so distributed A local tax must be paid by the people in that particular locality; but in the case of a tobacco tax or excise, I think you must spread it over the whole of India?

Sir Percy Thompson. Q.—If you look at it as a whole, you must include it as a burden

A.—It is a burden, but the whole of the community has to bear it

Dr Hyder. Q—In your reply to question No 29, you say that as far as possible you are in favour of indirect methods of taxation Doesn't strike you that octroi would hit the poor very much and similarly in the case of customs duty, you would be forcing up the prices of articles and really taking a slice out of the poor man's income?

A.—I do not like octroi, but I think a terminal tax is a good form of taxation There is such a tax in Cawnpore which brings in a very large revenue but of course it raises the cost of articles to the people in the locality

The President Q—As applied to the sugar business, for instance, you pay both ways, on the raw material and again on the finished products?

A.—Yes, we pay on the raw material

Q—Practically it is a transit duty.

A- Yes; so far as the refined sugar which is exported is concerned.

Q—You pay both ways?

A.—No, we pay on the raw material coming in.

Q.—Not on that which goes out?

A.—No, it is only an import terminal tax I think the terminal tax is a tremendous improvement on octroi

Q.—You said just now that you would be prepared to put on a tax on the capital of the companies operating in particular localities

A—Yes, we would pay it in the form of a tax.

Q—Would your Association be prepared to do that?

A—I do not think they would.

Q—Would that be a substitute for the terminal tax or in addition to it?

A—The terminal tax would have to go on, because we are not the only payers of terminal taxes, everybody who imports goods pays it.

Q—What is your opinion of the feelings of the business community about it?

A.—We brought it in ourselves. We asked to be relieved of octroi and to have this tax substituted, which was, in those days, an innovation

Q.—That was done on the report of the Simpson Committee in 1909, they made a special point about Cawnpore and we have been told that the terminal tax in Cawnpore is practically a transit duty which was condemned by them

A.—When we introduced it, Karachi asked for it in the form of an export duty on wheat

Dr. Paranjpye *Q*—In Bombay they impose a duty on cotton

A—Karachi wanted it in the form of a local tax I know that Karachi was not allowed to levy it on wheat It is advantageous, because it is free of abuses as a rule As far as I remember, octroi was full of abuses and it was very difficult to get refunds. You generally had to pay someone to get a refund

The President *Q*—You do not think it practicable to get rid of it and to have direct taxation?

A.—I have never heard any complaints about it It has been kept at a relatively low incidence And the whole bulk of the trade is involved

Q—Suppose a municipality wanted to introduce compulsory education, would you think it legitimate for them to raise a terminal tax to pay for education?

A.—As soon as you begin to make it a really heavy impost, I think it becomes a hardship

Q—And you regard the situation with equanimity?

A—I do not think we have a good municipality by any means, but so far, they have not made a direct attack on the local commercial undertakings. The big industrial concerns in Cawnpore contribute a large share of the municipal revenues We had at one time an idea of applying to be declared as a notified area, so that we would be able to use our revenues for that area We were told that there was no hope of our succeeding in such an appeal

Sir Percy Thompson *Q*—Please refer to your proposals regarding income-tax on the first page of your statement Suppose a man in Cawnpore carries on a manufacturing business, do I understand that you would make him pay three taxes, first of all an incometax, secondly a tax on the profits of his business, and thirdly a tax on his property?

A—We at present pay corporation tax, the raw materials of our merchandise are taxed and the whole of our premises are taxed

The President *Q*—No (3), business tax, is based on the capital of the company?

A—Yes

Sir Percy Thompson. *Q*—What are you going to do in the case of a private individual engaged in trade?

A—He pays tax, an income tax and super-tax, his premises would be taxed, also his raw materials if any when imported

The President *Q*—What about a profession tax?

A—Yes, he pays that in the same way as a company would be taxed I do not think you should pitch the rate of taxation as a whole so high as to interfere with trade

Q—That of course depends on the need for money In answer to Q 33, you say that income-tax is pitched high

A—I think income tax should be on some graduated scale

Q—Please refer to your answer to Q 37 What is the justification for a super-tax on a company at all? Supposing you are a company and I am an individual, we make precisely the same profits; what is the justification for taxing you because you are a company?

A.—Although I pay super-tax, I do not pay any income-tax at all, because nearly all my income is charged at the source. You pay it because the Company is paying it.

Q.—Your Company pays super-tax and you also pay it individually.

A.—Yes, and my income is charged to super-tax, *i.e.*, I pay twice over.

The President. *Q.*—If you were a single individual you would only pay once?

A.—It certainly seems unfair, but I am opposed to the present system of taxing corporation profits because the rate of dividend is not taken into account. If it is going to remain as it is the tax should be graduated.

Sir Percy Thompson. *Q.*—Haven't you got the insuperable difficulty, which you had in the case of the Excess Profits Duty in England, that you have to ascertain the capital of the company?

A.—I think the dividend per share should be taken into account.

Q.—Surely you can get over it very easily by inflating the value of the shares.

A.—This is watering your capital, of course, that can be done. But I think such a course would be objected to by the great majority of shareholders.

Q.—There is no justification for the income from agricultural operations being exempt from taxation? Can we tax pure agriculture?

A.—I do not see how you are going to do it; but I do not see why an industry dealing with vegetable fibres, sugarcane and such like should escape. Why should the tea people get off?

Q.—Do they get off?

A.—I understand they got off for a number of years. There was a big case about it.

Q.—I think the decision was against them.

A.—No, I think they were exempted.

Q.—I think that in the case of a tea company which grows it, manufactures it and markets it, the profits are divided into two, first of all, profits on growing the tea and secondly, profits of manufacture and marketing. The latter are taxed, while the former are not, because they come under the agricultural exemption.

A.—That is the same with regard to sugarcane.

The Maharajadhiraja Bahadur of Burdwan. *Q.*—When you refer to income from agricultural operations, what do you mean by 'operations'?

A.—I mean agricultural industries, such as pressing of oil-seeds in the villages or the crushing of sugarcane on a small scale. I do not think you could tax such operations.

Sir Percy Thompson. *Q.*—Part of the profits due to production of cane are not taxed?

A.—No, not those relating to the production of it.

Q.—Is it not the same on tea?

A.—So far as I know they are the same.

Q.—In your reply to Q. 40, you say that the exemption limit is pitched much too high. Suppose you fix the limit at Rs. 1,000, is it a question of the relation between the yield you get and the trouble and expense of administration? In one province an estimate was given that if you fix the limit at Rs. 1,000, you would double the number of people who came within the purview of the income-tax, but the actual yield be relatively small because of the trouble of finding them out and you would have to increase the machinery very largely.

A.—Yes, but I think relatively that a man who earns Rs. 1,000 might be able to pay something small

Q—Regarding your reply to question No 42, would it be possible to have a standard form of account for widely differing businesses, like a banking business or a grocer's business?

A.—You could have a standard form for banker's business

Q—Would you increase the standard form almost indefinitely?

A.—Ordinarily I think the Joint Stock Companies' returns are getting much more uniform than they were, but even now certain Income-tax officers do not understand the difference between capital and revenue

Q—Would your standard form be applicable to every kind of business?

A—Like undertakings would have a uniform form

Q—Would it apply to the sugar business?

A—Yes.

Q—You could really devise a form of account for every different business?

A—Yes I am thinking of something which the Income-tax officers would probably be able to understand better. We had a case the other day in which we failed to persuade the Income tax Officer regarding the principles of depreciation in the case of joint stock company accounts and eventually when we appealed, the Income-tax Officer was proved to be wrong

The President *Q*—You are adverting rather to returns than to the books a man keeps?

A—I am referring to various questions relating to profits and other details, which would be set out in a standard form by the party paying the income-tax before submission to the Income-tax Officer

Q—You grow some cane yourself Does it pay you?

A—No But it is a good thing to have some crop in reserve when your general supplies fall off towards the end of the season

Q—You say that the Government's policy of raising the duty on country spirits has already been carried too far Could you develop this statement in a little more detail?

A—I think illicit distribution has absolutely got out of control. In the old days when the duty was low it did not pay a man to risk going in for it, but it is now so profitable that all sorts of smuggling is going on. Practically speaking Government have lost control

Q—Has the consumption decreased?

A—Yes, official consumption has decreased Our distilleries are running at half their capacity

Q—You say that it is due to the increase of price?

A—Yes

Q—You say that the illicit distillation has increased?

A—Yes I have every reason to believe this to be the case, although I have not seen it with my own eyes It is I believe accepted even by the Excise Department There is I think no question that it is widespread

Q—Do you think it will improve matters if you do away with the present licensing system?

A—I do not know that, I was discussing that question with the Excise Commissioner the other day, I do not think he took that view

Q—It has been put to us by some people that the high price of licit liquor is putting a premium on the illicit liquor?

A—Certainly that is the view.

Q—Now they are going to introduce some principle of distribution of licenses by committees?

A—Yes, and they are going to proceed a step further with the idea of putting a stop to it by distributing direct from distilleries in sealed bottles. They tried this system in Benares and they say it has been working with very great success.

Q.—You say it has stopped drinking on the premises?

A—To some extent.

Q—Does not it frequently result in the opening of accommodation shops?

A—I do not know that But I am told this system is working very well. I think it is next to be tried at Cawnpore, Lucknow, Agra and Bareilly. It is said that the consumption in Benares due to the new system has gone up, but I do not know how it is going to fare elsewhere

Q—Can you account for this?

A—Because a man can get a genuine article and there is no added water as is probably the case now. As long as the bottles are sealed, the man knows he is getting the proper strength

Q.—You don't on the whole object to the present system of licenses?

A—No I am for temperance on general grounds The present system does not ensure temperance in the real sense Government is losing its revenue and the people are drinking illicit liquor

Q—You advocate a duty on foreign liquors locally made?

A—Yes, but we have nothing to do with it, as we do not make what are known as foreign spirits

Q—In order to avoid inter-provincial differences, would you approve that duty being given to the Government of India?

A—Yes

Sir Percy Thompson *Q*—You say that substantial revenue could be secured without any injury to Indian trade by the imposition of an export duty on raw cotton, oil seeds and raw jute?

A—I think the jute is already taxed but I believe the proceeds go to the Corporation of Calcutta It is a cess which is used for some special purpose

Q—Is it not a tariff duty?

A.—It is a cess

Q—Why do you favour an export duty on cotton? Will it not be difficult for the Indian cotton to compete in the markets of the world?

A.—But very much of our Indian cotton goes to Japan and they compete with us in manufactured goods, which we believe are subsidised in indirect ways and these goods are largely made out of Indian cotton

Q—At present there is a shortage of cotton but assuming the conditions reach normal, would you still advocate the export duty?

A—Yes. I don't see any prospect of too much cotton.

Q—Would it not be precisely the same thing if you raised the duty on the manufactured goods?

A—I am afraid only of Japan. I do not think we are getting any special treatment from Japan in their tariff

Q—Do you think it is better to put on an export duty?

A.—Certainly.

Q—You want to impose an export duty on oil seeds Then you will be restricting the export?

A.—Yes We want the cake kept in the country We want this for fertilizing purposes The local oil industry of course is not in good case at present.

Q—You think that in the case of some articles in the tariff, a duty calculated on weight would have advantages. This is specially the case with refined sugar?

A—This is now being suggested I made this recommendation some years ago

Q.—Is it *ad valorem*?

A.—No, with a specific duty on weight the traders know where they are

Q.—Then you do away with any valuation?

A.—Yes

Q.—Then it is practically a specific duty?

A—Yes, to some extent They are putting forward a suggestion for Rs. 4-8-0 a cwt on the higher grades and Rs 4 on the remainder That would mean no further protection to the Indian producer at any rate for another 12 months

Q—The effect of putting on the specific duty in a falling market will be to give some protection?

A.—I assume a sort of normal figure They have put it up for 1924. Cigarettes are also suggested for specific duty I do not know why Perhaps it is for the lower grades

The President. *Q*—Have you any views on taxation of tobacco Do you think it will be worth while?

A—I do not think so, unless you can catch the big factories

Q—Is there any reason why they should be free of duty?

A.—No But unless you catch the big man you cannot catch the small men

Q—Can you adopt the system adopted in Patiala State where they sell the monopoly of sale by auction impose a limit to private possession and compel the growers to sell only to licensed vendors or exporters?

A—I think it is quite possible It will make the taxation also easy because it is grown over rather a limited area

Q—That is the trouble, it is grown all over India I think nearly every district cultivates tobacco?

A—Perhaps it is grown purely for local consumption I think the system you put forward is quite feasible

Q—You advocate increased death duties, and say the present rate of duty seems to be very inadequate Do you allude to the existing rate of probate?

A.—I do not see any reason why all estates should not pay At present only Parsees and Brahmo Samajists pay and the Hindus and Muhammadans do not pay I do not know why the others should not pay I think the State is entitled to tax all estates I think at present the incidence is extraordinarily low.

Q.—I do not quite follow your remarks about the Hindu joint family You have so many shares and the number of deaths would be very much greater?

Q—I do not know why that custom should be allowed to operate to avoid taxation. If it is possible it should be certainly taxed You would only tax the deceased member's share of the joint property and should exempt those who die before 18 years or so, but I admit the system will have to be very carefully handled or it might be very unpopular

Q—You advocate that all judicial proceedings should be taxed as highly as possible so as to become an effective deterrent to litigation Don't you think it would be an impediment to business?

A.—Fortunately we have not got much litigation and I cannot say But I am led to the opinion that there is a lot of unnecessary litigation in this country. When I went to Bihar many years ago a great deal of justice was administered through the planting community and many people did not go to the courts at all. I would like to make the litigation as difficult and as expensive as possible

19th February 1925.

Lucknow.

PRESENT :

Sir CHARLES TODHUNTER, K C.S I, I.C S, President

Sir BIJAY CHAND MAHTAB, G.C I.E, K.C S I, I.O M., Maharajadhiraja Bahadur of Burdwan.

Sir PERCY THOMPSON, K B E, C B

The Hon'ble Sardar JOGENDRA SINGH

Dr. L K HYDER, M L A

Mr. B. G. BHATNAGAR, M.A., F.S.S., Lecturer in Economics, University of Allahabad, was examined.

Written memorandum of Mr. Bhatnagar.

Qs 1—7—At the very outset I wish to make it clear that I am in perfect sympathy with the idea of an economic enquiry preliminary to changes in taxation But this doesn't mean that I am also in agreement with what they have generally recommended in the Legislative Assembly to be the form of this enquiry. If I have understood the speeches made in the Legislative Assembly correctly and if my memory does not fail me now, then what they want the economic enquiry for, is either for the determination of the total wealth or the determination of the national income Perhaps the underlying idea of those who insist on having an enquiry of this nature is ultimately to have an idea of the percentage relation that the present taxes bear to the total national income, and then to compare it with t[illegible] total wealth or the national income in other [illegible] any and England And if after such a com[illegible] ge relation of taxation to National Wealt[illegible] ndia than in other countries, then, to recom[illegible] it quantity of taxes or at least to cry a halt

Looking at this line of thought from the practical point of view of taxation, I feel constrained to say that, it is entirely a futile method of approaching the problem Such an enquiry may be very entertaining for a discussion in a learned society of economists Perhaps it would also supply a convenient handle to the opposition in the legislature to cry down the Government But it would be almost worthless for a practical administrator before whom the problem is either to find out new sources of taxation or to bring about an equal distribution of the burden of the existing sources of taxation For him what is important is not the total wealth or the total national income of a country but its distribution amongst the different classes of people living in that country Let me make my meaning clear by an example :

Suppose there are two countries X and Y, each having an income of Rs 10.000 in the year of 1923 24 Now in X this income is divided amongst 30 people equally, each getting Rs 333 5-4 While in Y, among the same number it is divided as follows :

Class	Men		Rs.	Rs
I Class	2 men getting		1,000 each	2,000
II	4		800	3,200
III	6		500	3,000
IV	18		100	1,800
	30			10,000

Now if the minimum exempted from taxation be kept at Rs 250 in X and Y, and incomes above that be taxed according to the generally approved system of progressively graduated taxation, and if we adopt the following rates, i e, incomes between Rs 250 and Rs. 450 at the rate of 3 pies in the rupee; incomes between Rs. 450 and Rs 900 at the rate of 6 pies in the rupee, and incomes between Rs 900 and Rs. 1,500 at the rate of one anna in the rupee, then we would find that the total amount of tax received in the country X will amount to Rs 156-4-0 The percentage of this to the total income of the country would be 1·5625 While in the case of the country Y the total amount of the tax on the basis of the scales adopted above would come to Rs 318-12 0, and the percentage of the tax to the total income would come to 3·1875. To an unwary and uninstructed mind the statement of mere percentage of tax to the total income or the total wealth of a country as compared to the same of the other country as may mean something but in reality it means nothing. In the [illegible]

[illegible]

[illegible] means yes! By this time it should be clear therefore that for practical problems of taxation the estimates of total wealth or total income are not at all important What we want is an estimate of the incomes of different classes of people living in a particular country so that we may have an idea of what classes would come or should come under our scheme of taxation

Not only the attempt to make an estimate of the total wealth or total income of India will be useless for the purposes of changes in taxation, but it would also require enormous expenditure of time, talent, and energy I understand that in a country like England which is predominantly a manufacturing one and where production is carried on in concentrated localities, it took seven years to have some sort of a census of production And this when the available supply of men gifted enough to carry out the investigation was as large as an advanced country like England could put in the field for that investigation In a country like India which is predominantly agricultural and where production is scattered over an area at least ten times that of England it should take at least 100 years to complete that enquiry And here we shouldn't forget that the available number of people fit enough to carry on an investigation of that kind is incomparably small

Look at it from whatever point we like, whether desirability or practicability, an enquiry to estimate the total wealth or the total income of India is not what is wanted What we want is some sort of an enquiry that would give us a general idea of classification of the people of India on the basis of incomes We should have a number of grades of incomes ranging from, say, that figure which may be taken as the minimum to provide the necessaries of health and efficiency to an average family Of course this minimum will be different for different regional units and different classes, and the minimum for the whole of India could be arrived at after taking an average of these For the sake of illustration if we say that such a minimum is an income of Rs 500 per year, then to our I class will belong all those whose incomes are below or up to Rs 500 per year Our next class may be of income between Rs 500 and Rs 750 and so on How to set about the classification of this kind? Should we adopt the method recommended by Mr C N Vakil before the Taxation Enquiry Committee or should we adopt some other method? There is no doubt as Mr Vakil has pointed out that the ideal enquiry would be to make an economic survey of each of the thousands of the Indian villages But he rules it out as he considers that the expenditure of time and money would be far too great Instead he has suggested as the next best thing to take *taluq* as a unit for enquiry He advises the organization of the *taluq* committees, district committees divisional committees provincial committees and an All India Committee Towns and other cities which are industrial centres are to have their own committees The composition of this committee is to be both official and non-official The results of the enquiry would, he says, depend on the work of the *taluq* committees which should tour and make first hand enquiries from villages According to him at least one third of the number of villages in India should be visited by these *taluq* committees The main plan of [illegible]

India [illegible]
difficu[illegible]
be of [illegible]
bly, [illegible]
to un[illegible]

idea of classification of population on the basis of incomes, then I for one, am in perfect agreement with it. To me it appears that such an enquiry should not be confined to one-third of the villages but should be carried out for all of them. In view of what I have said above this suggestion may appear a little fantastic. But if on one hand we narrow down the meaning of our economic enquiry to the finding out of income and expenditure of the people and on the other if we keep in view that for this purpose it is not necessary to study the family budgets of each individual family in India then the suggestion will lose much of its impracticability To begin with, for each village there are records in existence. From these total number of people living in a [illegible] and for each homogeneous group [illegible] t I mean by homogeneous group [illegible] such as agricultural labourers, [illegible] iculturist class itself could be divided into a number of homogeneous groups either on the basis of number of *hals*, or wells or area under cultivation, whatever may be convenient in a particular locality. As a matter of fact these homogeneous groups should not be confined to each individual village but should cover a homogeneous region or a group of villages having similar conditions For dividing a district or a *taluq* into such homogeneous regions it should not be necessary to spend much time and attention because in all the temporarily settled parts of India the Settlement Officers have already done this kind of work for us in their Rent Rate Reports. Instead of the *taluq* suggested by Mr Vakil, I should strongly recommend the adoption of circles devised by the Settlement Officers for the calculation of rent rates as the basis of our enquiry. It is for these circles that we should have in the beginning an idea of the classes of people living and then for each class we should study, say, about half a dozen specimen family budgets If we narrow down our scope of enquiry within the limits suggested above then I am sure that the suggestion will have lost much of its fantastic character. I am conscious of the fact that even in this narrow aspect it will take not six months as suggested by Mr Vakil but at least twice or three times that period provided work is started all over the country simultaneously

In this connection I would strongly recommend the Questionnaires Numbers 2 and 3, which we in the Allahabad University have been utilising for the study of family budgets. The method of dividing the district of Allahabad into three circles may also be noted So far we have published only one bulletin in this connection, which I have great pleasure in enclosing for the consideration of the Committee.

Such an enquiry when completed would be of great help in solving some very important problems connected with taxation From the income side we could know what classes should come under different kinds of taxes, as well as the probable income from each From the study of expenditure we could find out the real incidence of direct and indirect taxation on the different classes, and then get some particular hints for equalising the burden of taxation

Qs. 8 & 9.—The existing data are not sufficient to give us any correct idea of the incidence of taxation on the different classes The process that I believe can give that idea is what I have suggested above.

Q. 10.—[illegible] in these provinces (Agra and Oudh), the [illegible] income from *Sayar*, *i e.*, from trees, sale [illegible] From a study of the Settlement Repor[illegible] income in the assets would come to sor[illegible] [illegible]at And as the Government usually take about 45 per cent in these provinces the share of such income would be approximately between 0.5 and 1 per cent Income from nazaranas, penalties and other customary dues are not shown in the village papers, and the Settlement Officers do not seem to have included these items in the calculation of the assets, and therefore such income does not form any part of the revenue However, I should like to add, that all such customary dues are now becoming rare, especially after the non-co-operation movement

Q. 11.—No

Q. 12.—I am not competent to answer this question.

Q. 13.—Of course the element of [illegible]

men [illegible]

gene[illegible]

ernr[illegible]

the [illegible]

Q. 14—There is none, and that because a tax is that in economic parlance which has to be paid under compulsion. Now in none of these this important element is present.

Q 15—I have no idea whether the charge for water supplied is adequate or not. As to the plan to be adopted I feel strongly inclined to support No. 15 (1). And this because I look upon irrigation water as an important raw material in the agricultural industry As agriculture is our most important industry, and as water is essential for its economic development, it should be supplied at as cheap a rate as possible

Q 16—It would be right under certain circumstances to take a portion of this increase; while in others it would be unjust. Supposing a landowner sells his land after its value has increased owing to the introduction of irrigation, then it would be just to take 50 per cent of the increased value But if he does not sell it, and is securing a higher rental, then there is no justification for charging any money on the basis of the increased value, and this because the higher rental would naturally be utilised by the Settlement Officer for fixing a higher revenue But in the provinces and areas, such as in the newly colonised parts of the Punjab, where land values have risen very rapidly, and largely because of speculation in land, it may be desirable to tax the land-values in addition to land revenue even during the currency of a settlement

Q 17—Tenancy laws in different areas have very intimate connections with such proposals If there is an area such as the Agra Province where the majority of the cultivators are tenants-at-will or occupancy tenants, whose rents are liable to be increased, then in such areas any such improvement is sure to lead the landlord to increase the rents of the tenants, with the result that the greater part of any such increase is not likely to remain with the cultivator for a long time. While in the provinces like Bombay and Madras, where there are no landlords, the chances are that the benefits resulting from any such schemes would remain for the remaining term of the settlement with him

Q 19—I for one would not take such taxes into consideration while estimating the general incidence of taxation Whenever any such taxes are imposed they are for a definite period of time and for a specific purpose leading to some benefit for the people concerned Strictly speaking they are more in the nature of a fee than of a tax

Q 20—Yes I would make distinction between those taxes which are earmarked and those which are levied for the general purposes of the local body In clause 1, I would put such as the road cess, and in clause 2, the general cess which is levied up to 10 per cent of the land revenue by the Provincial Government in the United Provinces for the general purposes of the District Boards

Q 21.—Looked at from a strictly economic point of view, I would not call any charge a tax if it is voluntary, because from Adam Smith downwards all economists have agreed to define tax as a compulsory contribution No taxes therefore should be considered as voluntary and no contributions that are voluntarily paid whether for a specific service or not, should be included in estimating the burden on the taxpayers

Q 23—Yes I agree with the statement quoted.

Q 24—A tax upon entertainments and railway tickets is quite legitimate, provided third and inter class passengers and those entertainments which provide for poorer classes are exempted

Q 25—However in estimating the burden due to excise revenue, I would make no such distinction and that because classes that are prohibited by their religions to drink are found making use of all these intoxicants

Q 26—The scheme of taxation in India may be approached from two distinct points of view (i) the distribution of the different sources of income between the Central and [illegible] the burden of taxation on [illegible] paper which I read before [illegible] copy of which I have alre[illegible] (ii), it is very difficult to [illegible]ing the material which [illegible] at the beginning of th[illegible] can have any dependable idea of the incidence of different taxes on the different classes of people.

Under ordinary circumstances people whose income is below the subsistence level or just at the margin of subsistence should not pay any tax of any kind but in times of stress such as a war, even they may be called upon to contribute to the expenditure of the State In this connection, I may be permitted to add that indirect taxes on such commodities as salt, tobacco, matches, kerosene oil—commodities which are consumed by almost all the classes of people—should ordinarily be taxed at a nominal rate and when an emergency arises, the rate should be increased

Q 28—By no means yes.

Q 32—Direct taxation, to which the different taxes mentioned in questions 30 and 31 belong, I look upon as objectionable in the case of the poor classes Such taxes in their case are likely to produce a great feeling of resentment against the authority of the State and that feeling is likely to be exploited by the professional agitator for his own ends Taking the other aspect, such taxes are likely to awaken the political consciousness of the people and to make

the State If rightly handled, a small ucator of the masses in their political mic grounds, such as the cost of col- or the general mass of the population.

Q 33—A study of the statement E makes it perfectly clear that the taxable minimum is higher in India and that the percentage of income taken on smaller incomes is higher in India than in other countries, while it is much lower for higher incomes Perhaps, the prevailing standard of living and price level in India would justify a lower taxable minimum; but there seems to be no justification for keeping the percentage higher in the case of lower incomes and lower in the case of bigger incomes I for one would therefore strongly recommend that the percentage of income taken in taxation should be brought to the same level as in France up to incomes of £150 and above that it should be raised so as to bring it in line with other countries in the world. This would give us a good substitute for those taxes that may be abolished

Q 34—I look upon the present scheme of graduation as unsatisfactory and that because it takes away a higher percentage from lower incomes and lower percentage from higher incomes, as compared to what we find in England or in France, I for one strongly recommend the scheme of graduation similar to that of France

Q 35—It is desirable to make a differentiation in favour of earned incomes, or incomes from capital invested in productive enterprises; and this because in the present state of economic development in India, it is desirable to encourage the investment of capital in industry and trade rather than landed property.

Q. 36—It is impossible to make allowances for the number of persons supported out of particular incomes without proceedings of an inquisitorial nature and to undertake such proceedings it is likely to lead to some very undesirable practices To facilitate matters, I would recommend that in case of incomes, say, Rs 10,000 or above, no allowance be made for the number of people supported Below that I would proceed in my normal way and leave it to the party concerned to substantiate its claim for a reduction on the basis of numbers of people to be supported, just as under the existing circumstances all incomes of a company are taxed at a uniform rate at the source The individuals, later on, secure rebates

Q. 37—I would leave the super-tax on the companies in its present form.

Q. 38—I am in favour of the removal of the exemption of incomes derived from agriculture. However, the problem is a very complicated one The scheme of taxation in this connection should take into consideration the prevailing system of land tenures So far as the provinces where the zamindari system prevails are concerned, I have absolutely no hesitation in recommending that incomes beyond a certain minimum be taxed Certainly the minimum in this case will have to be a little higher than in the case of income from salaries or business enterprise and the percentage share that may be taken by the State for higher incomes may in this case be legitimately fixed at a higher figure In the case of provinces where ryotwari system of land tenure prevails, I am inclined to think, that the number of actual farmers, if the present limits of exemption are maintained likely to be affected, would be very few indeed. I have no personal experience of the ryotwari areas but the impression created on my mind after going through the economic surveys carried

out by Dr. Gilbert Slater in Madras and Dr Harold Mann in the Bombay Presidency, is that the number of occupants who are actual farmers and whose income may be above exemption limit would perhaps be one in a thousand So far as the United Provinces are concerned, I can say with more or less definiteness that the number of farmers whose income would be above the exemption limit would not be more than one in 10,000 It would therefore, in my opinion, be quite useless to tax agricultural income in the case of actual farmers and this mainly because we are not likely to get much out of it, but also because if actual farmers are exempted then it would encourage better farming However, there is a large number of people in Madras and Bombay as also in the Punjab who in the Government papers go by the name of occupants and yet who do not actually cultivate their farms and are as good land-owners as one could find in any of the zemindari provinces Their incomes should be treated exactly on the same lines as the income of the zamindars

Q 39—I am afraid I am not prepared to accept the estimate given in this connection For one thing I haven't seen the data on which the estimate is based And I doubt very much that even the authors of 'Wealth and Taxable Capacity in India had the necessary data before them. If I were to calculate the likely proceeds from such a tax, I should like to have before me a province-wise list of people with agricultural incomes above the exemption limit Not only this, I should also have the approximate number belonging to different classes of income Now so far as my knowledge of published statistics is concerned this information is not readily available However, I don't mean to say that this information doesn't exist I know it for a fact that in every district in the United Provinces a list is maintained in the Collector's Office wherein the zamindars are graded according to their incomes Probably, similar data also exist in other parts of India and if the authors of 'Wealth and Taxable Capacity of India' have succeeded in securing information scattered all over the country then certainly their estimates must be correct However, for one of our research students we tried hard to secure this information from district officials in the United Provinces and the reply that we got was that "they had not the time to compile the necessary information for us The research scholar should, if he liked, compile the data for himself and the officers would allow him to make use of the existing records" Perhaps, the authors were more fortunate than ourselves

Q 40—Yes, I consider that it would be fairer to reduce the limit of exemption to one thousand in case of income tax Owing to the prevailing system of joint-family in India, it is rather difficult to make it as low as subsistence level To arrive at a standard family budget is not difficult but our social responsibilities are far more inclusive in this country than in Europe In view of this fact, I should strongly recommend the maintenance of exemption limit at a figure higher than the subsistence level

Q 41—From my personal experience, I can say, that there are a number of people in urban as well as in rural areas who escape taxation, simply because they keep no accounts It is true that the introduction of a centralised and more efficient system of income tax control has done a great deal to remedy this defect, but if we could adopt some measures that would compel all people, big or small, engaged either in some sort of productive enterprise or in business such as trade, money lending and so forth, to keep accounts, then the receipt from income-tax would materially increase Certainly, it is desirable that people doing business should keep accounts in a standard form In what form that has to be decided

Q 47—I for one am satisfied with the present arrangements in regard to assessment on the previous year's income

Q 49—Yes I would recommend excise on the production of the following cigarette papers, coffee, matches, motor-cars, tobacco, sweets and perfumery

Q 50—Such graduation is only practicable in the case of those articles which have different varieties such as different kinds of wine, different kinds of tobacco, and so on, but it is not practicable in the case of such commodities as salt

Q 51—I agree with the statement quoted, but as I have pointed out above, I would tax salt rather at a nominal rate and would only keep it as a reserve for emergencies

Q. 52—Personally I believe that it is not proper to tax people whose income is either below the margin of subsistence or just about it, but as it is almost impossible to adopt a scheme of general indirect taxation from which these classes may be completely eliminated, therefore the commodities that are generally consumed by them should be taxed very lightly

Q 54 —I would recommend the extension of sale directly by Government at a price which includes the expenses of manufacture and the tax

Q. 55 —Certainly yes So far I was evading the statement of my idea on this point but now I must I would strongly recommend that Government should make salt a monopoly of the State

Q. 57 —The most evident result of the process of sifting is to increase the price to the consumer. It is invariably practised to increase the trader's profit and as such it should be prohibited, but if the production of salt is made a State monopoly and standard quality is put on the market then there would be no necessity to take any measures in this direction

Q 58 —Certainly the sale of salt by weight is preferable.

Q. 59.—If, as I have recommended, salt is to become a State monopoly, then certainly it will be desirable to have a Government agency for its sale

Q 61 —I am not a believer in morality being enforced by something external to man Both Muslim and Hindu religions denounce drinking and the use of intoxicants and yet people do drink and use intoxicants. When I say this, I do not mean that the State or the public should do nothing to lessen the use of intoxicants by the people But what I mean to emphasise is that instead of using compulsion such as prohibition to eliminate the drink habit, I would prefer persuasive methods The only result of compulsion wherever adopted seems to have been to drive the drug habit underground Arguing on these lines therefore, I would support a moderately high excise duty. I am not in favour of any of the proposals made by Dr Matthai or by the Bombay Excise Committee.

Q 63 —I accept the general implication of all the quotations in this connection but I wish to lay a special emphasis on No. 1 and this because I believe that the drug habit can only be reduced by moral persuasion combined with economic pressure.

Q 64 —Regarded as a pure measure of taxation the policy followed in the United Provinces seems to have gone in advance of that which I would recommend. Looked at from a purely revenue point of view our excise duties seem to have reached that point where we may look upon them as effective from the moral point of view. Very recently it was given out by the Government that the excise duty is so high that the excise revenue is diminishing Now if diminution has taken place owing to the curtailment of the drug habit as the public think it has, then it is something to be welcomed But if it has led to illicit production on a large scale as it is alleged by the Government that it has, then certainly we have overshot the mark. Our excise duties should be such as would discourage consumption but they should not be so high as to lead to illicit production on a large scale If they are of the latter variety it means a double loss The State loses in revenue and the public do not gain in moral uplift In my province, therefore, the question is of facts.

Q 66 —To me it seems that the fall in excise revenue is due to (i) pressure exercised by the non-co-operation movement and (ii) the effectiveness of high excise duties

Q 67.—I believe in uniformity of taxation in the case of those commodities which are imported and also produced at home and I therefore would advocate a uniform rate on things produced in India as well as imported from abroad

Q. 68.—No

Q 70 —In the United Provinces the *tari thikedar* pays from eight annas to two rupees per tree to the owner of the tree In addition to that he pays the taxes to the Government. From what I have seen I am inclined to think that there is margin for further taxation.

Q. 71 —Yes There are sufficient reasons for variety of rates Ganja and charas have greater value for the same weight and at the same time their effectiveness as intoxicants is far greater than that of bhang

Q. 72 *and* 73 —Yes.

Q 74 —Certainly, the decrease in the number of licenses has resulted in a great increase in the value of those that remain. To me it appears perfectly natural.

Q 75 —If a revenue tariff covers all imports the natural result as pointed out by Prof Hamilton, is, that it falls rather heavily on the middle class

people. I would, therefore, advocate that the tariff imposed for revenue purposes be confined as far as possible to those articles which are consumed by the upper classes. This doesn't mean that the commodities largely consumed by the middle classes should be perfectly free but that they should be taxed at a lower rate.

Q 89—The practice of going to the Law Courts especially the Revenue Courts is not certainly an index of the ability to pay of the litigant and as such the court-fees and stamps in the Revenue Courts should be so limited as just to pay for the cost of the courts From my experience, in the rural areas I find people carrying on litigation from money borrowed at high rates of interest. We should, therefore, do everything possible (i) to decrease litigation and (ii) to reduce the expenses of litigation as far as possible I am conscious of that argument which is advanced so often that if you diminish the expenses of litigation you encourage it, and there is no denying that there is a tendency set up in this direction, but certainly raising of court-fees and stamp duties does not seem to be effective in this connection The remedy lies elsewhere i e., the simplification of laws of tenancy and contract But as the chief function of the State is the maintenance of law and order it doesn't seem to be right for the State even to utilise the agencies that it maintains for discharging its primary functions as sources of taxation I would therefore say that it isn't legitimate to arrange our stamps and court-fees according to the ability to pay.

Q 90—Statement of Hobson is perfectly correct, but it needs a little qualification, and that is by having stamp duties on deeds of disposal or transfer of property if they are not very high the State does a specific service which gives validity to the transaction Fees tend to develop into taxes.

Q 92—Yes The element of taxation is present in the court fees

Q 93—Here I think the State may legitimately bring in the element of ability to pay and adopt a progressive scale for registration

Q 95—In a country like India there isn't much scope for an entertainment tax, outside a few big cities, and therefore I would leave this source of income to the discretion of local bodies

Q 96—A tax may be defined as a compulsory contribution from an individual not in lieu of any specific service done to him but for the general maintenance of the State A rent may be defined as that which is paid by the users of some natural factors of production such as land to the owner of that factor The economic considerations in deciding whether land revenue is a tax or a rent does not apply equally to all parts of India. Proceeding on purely economic lines land revenue in the ryotwari areas can to a certain extent be classed as rent It is a different matter that the owner of the land, i e, 'State' prefers not to take the whole of the economic rent However, in the zamindari provinces, land revenue from a purely economic classification point of view can neither be classed as rent nor as tax It isn't rent because it is levied irrespective of the actual income of the landlord In a country like England where landed incomes are taxed exactly on the same lines as incomes from other sources, if a landlord decides to keep all his land fallow during a particular year and therefore has no income from it for that year, he has to pay no tax While, in India, whether the landlord has income or not, the landlord is bound to pay the revenue assessed on his land This is something which distinguishes land revenue from a tax It is as Baden Powell has pointed out something by itself If, however, we must label it either as rent or as tax, then, it has more in common with a tax than with rent

Q. 97—No It may be affected in the ryotwari provinces but it is not certainly affected in the zamindari provinces The causes that influence the prosperity of the cultivator are so many that it isn't possible to give an idea in a brief sketch like this but certainly land-tax in the zamindari provinces very remotely effects it For a study of the causes that influence the prosperity of the cultivator, I would strongly recommend the perusal of my paper on 'India's Economic Problems' recently published in the 'Bengalee'

Q 98—I concur with 1 but I do not concur with 2, 3 and 4

Q 99—I don't understand this question as it is not clear Inequality in what? Taking into consideration the standard of living and price-level, certainly Rs 2,000 is not the subsistence level It is not impracticable for a taxing officer to ascertain whether an agriculturist's income exceeds the taxable minimum limit or not It should be quite easy in the case of zamindars Certainly it would lead to the breaking up of joint families, and as a result it would

tend to induce fractionisation of holdings; but I don't think that it will go a very long way in this direction

Q. 101.—I don't approve of a tax on mutations because I think that it will not be effective in checking fractionisation. The phenomenon of fractionisation or what is known in economic circles as sub-division of holdings is due to our laws of inheritance, and mutations are merely the outward indices of the real disease In order to check this tendency we have either to change the laws of inheritance, which is an uphill task, or we have to modify our tenancy laws on the lines suggested by the United Provinces Government in the Bill on Agra Tenancy under consideration

Q. 102.—Yes.

Q 103—I would leave the taxation of the agricultural lands within municipal limits to the local authorities

Q 104—I would adopt No 2 and that because this seems to be the only method by which comparative estimate can easily be made

Q 106—I agree.

Q 107—The local bodies should be given further powers of taxation. They, especially the municipal boards, be given the power to tax the increase in the land values

Q 108—From a purely economic point of view the levy of octroi is certainly unsatisfactory and I quite agree with what Armitage Smith says in the passage quoted in Q 109; and as such out of these three taxes, I would recommend its discontinuance. But after taking into consideration the financial position of the majority of the municipal boards in India and my failure to suggest some suitable and effective substitute, I do not feel justified in recommending its discontinuance In big cities like Calcutta and Bombay where owing to the high prevailing rents, the house-tax succeeds in bringing substantial funds to the municipal exchequer, it is comparatively easy to dispense with octroi, but in moffassil municipalities where octroi brings in substantial revenue and where house-ta[illegible]s difficult to do without octroi I know c[illegible]vinces which for a time abolished octroi; b[illegible]ot make the two ends meet, they had to r[illegible] evils with which an undeveloped country [illegible]

Q. 112—It is right that the house and the land tax and the land cess should be levied in whole from the owner. The owner of the agricultural land is not able immediately to shift the land cess on to the occupier but even he, in the long run, shifts it on to the occupier, while the owner of a house or a land, within the municipal limits does shift the tax almost immediately on to the occupier It is also easier to collect from the owner than from the occupier.

Q 113—So far as the limitation on the power of the District Boards to impose a land cess is concerned, it is very desirable If the District Boards were given an unlimited power, the danger is that the burden of taxation on the landlord may become excessive It is to safeguard against this that it is essential that a limit should be fixed However, as lands and buildings in municipal areas are not exposed to taxation by two authorities, there seems to be no justification for imposing any limit there.

Q 117.—Before I answer this question, I may be permitted to point out that the theory that prevails in certain quarters, that towns and cities are something independent of the surrounding rural regions, and that the surrounding rural region does not in any way benefit from the presence of the town or the city appears to me to be entirely wrong It is on the basis of this theory that people consider it unreasonable on the part of the Central Government to give subsidy or grants in aid to the municipal administrations If the theory were correct, then the principle on which the Central Government should advance funds in aid of municipal finance would have been a simple one. There I should have expected the Central Government giving only so much as was necessary to spend on national or onerous services. But I do not believe in the principle initiated above To me, the city or the town in the centre of its surrounding rural region occupies very much the same place as head and heart do in the human body. I would therefore freely accept the legitimacy of general governmental funds making unconditional contributions in aid of local finances However, I would modify this principle to a certain extent and that to ensure

economy and local effort to raise funds. The particular form that my modification would take in practice would perhaps be the same as is adopted in the United Provinces for giving aid to private schools and colleges If they provide Rs 100 the Government is also willing to grant them aid up to an equal amount.

Q. 115—The stimulus referred to in the question does not seem to exist to an appreciable degree in the rural areas but the civic consciousness of the people in the cities has very much increased of late years and chances are that it will continue to increase However as things are at present, some watchfulness on the part of the Central Government to see that efficiency is maintained is essential. But this watchfulness should, as far as possible, avoid its expression in that particular form which depresses initiative, and should express itself in that persuasive manner which encourages initiative and creates an impression on the mind of those in whose interest it is exercised that the exercising authority is solicitous of their well being

Q. 119—Out of these only I will recommend a tax on hotels and that by the local authority in whose jurisdiction the hotel is situated

Q 120—I am inclined to support strongly proposal of J C Jack for the universal income tax What particular form it should take is a question of details which will have to be discussed later on If Jack's suggestion is adopted it will naturally embrace Prof K T Shah's suggestion of having an income-tax on agricultural incomes I am also inclined to support strongly Prof Shah's suggestions to have succession duty as well as tobacco monopoly His suggestion to have registration fee on marriages is also very good It is likely to secure a substantial income to the exchequer and at the same time to secure legal recognition of the fact for the parties concerned As things are at present, no reliable records exist to prove whether a certain man was married to a certain woman or not The other taxes mentioned by Prof Shah are such as are being utilized by local authorities The suggestion of a member of the Indian Economic Association to have a tax on dowries is not likely to yield much and is sure to increase dishonest practices The suggestions of Prof. Rangaswami Iyengar have been already covered by Prof Shah's suggestions Mr Vakil's suggestions are quite reasonable The same cannot be said, however, of the suggestion of Sir Ganga Ram He would abolish land revenue and replace by produce tax of 1/6 of the value of each and every produce of the land If the assessment of land revenue means so much work for the Settlement Officer and his staff and that when it is assessed not every year but every thirty years, then the estimation of the produce of the land every year, as contemplated by the suggestion of Sir Ganga Ram would really mean an enormous amount of work If for nothing, then for this, I would rule out his suggestion as impracticable Perhaps, he himself realises this and that is why he has added that "This tax I would charge on all such produce brought to the railway station, whether it is for the provincial consumption, for transfer from one province to another or for export to other countries, exempting only a certain local radius intended to cover home consumption" If this suggestion of his is adopted to give effect to his proposal, then two things are likely to happen (i) the State will not be able to secure 1/6 of all the produce whereas now State is able to get some percentage of the total yield from the land in every year (ii) that part of the produce which will be seeking export from province to province or from India to other countries will be subjected to a comparatively high tax and thus discourage industry and trade In some cases where things may be re exported, double or treble taxation may take place The local radius exemption is likely to lead to devices for evading this tax, and thus increase dishonesty While the proposal to commute land revenue is perfectly impracticable for want of the necessary funds

Q 121—I am in entire agreement with the passage quoted above

Q 122—I would strongly recommend the taking up of tobacco as a Government monopoly Its production should be allowed on the same lines as the cultivation of poppy It should not be difficult to stop imports because we haven't found it difficult to do so in the case of opium

Q 137—I would graduate the succession duties according to the amount inherited for each individual heir I have discussed this point in my paper read before the Economic Conference at Benares.

Q 139—I agree with the propositions initiated here

Q 141—I consider this appropriate in the case of India.

Q 142—I accept the proposal

tend to induce fractionisation of holdings, but I don't think that it will go a very long way in this direction.

Q. 101—I don't approve of a tax on mutations because I think that it will not be effective in checking fractionisation. The phenomenon of fractionisation, or what is known in economic circles as sub-division of holdings is due to our laws of inheritance, and mutations are merely the outward indices of the real disease In order to check this tendency we have either to change the laws of inheritance, which is an uphill task, or we have to modify our tenancy laws on the lines suggested by the United Provinces Government in the Bill on Agra Tenancy under consideration.

Q. 102.—Yes.

Q 103—I would leave the taxation of the agricultural lands within municipal limits to the local authorities

Q 104—I would adopt No 2 and that because this seems to be the only method by which comparative estimate can easily be made

Q 106—I agree

Q 107—The local bodies should be given further powers of taxation. They, especially the municipal boards, be given the power to tax the increase in the land values

Q. 108—From a purely economic point of view the levy of octroi is certainly unsatisfactory and I quite agree with what Armitage Smith says in the passage quoted in Q 109; and as such out of these three taxes, I would recommend its discontinuance But after taking into consideration the financial position of the majority of the municipal boards in India and my failure to suggest some suitable and effective substitute, I do not feel justified in recommending its discontinuance In big cities like Calcutta and Bombay where owing to the high prevailing rents, the house-tax succeeds in bringing substantial funds to the municipal exchequer, it is comparatively easy to dispense with octroi, but in moffassil municipalities where octroi brings in substantial revenue and where house-tax is not comparatively important it is difficult to do without octroi I know of some municipalities in the United Provinces which for a time abolished octroi; but when they found that they could not make the two ends meet, they had to reimpose it It is one of those necessary evils with which an undeveloped country has to put up with

Q 112—It is right that the house and the land tax and the land cess should be levied in whole from the owner. The owner of the agricultural land is not able immediately to shift the land cess on to the occupier but even he, in the long run, shifts it on to the occupier, while the owner of a house or a land, within the municipal limits does shift the tax almost immediately on to the occupier It is also easier to collect from the owner than from the occupier.

Q 113.—So far as the limitation on the power of the District Boards to impose a land cess is concerned, it is very desirable If the District Boards were given an unlimited power, the danger is that the burden of taxation on the landlord may become excessive It is to safeguard against this that it is essential that a limit should be fixed However, as lands and buildings in municipal areas are not exposed to taxation by two authorities, there seems to be no justification for imposing any limit there.

Q 117.—Before I answer this question, I may be permitted to point out that the theory that prevails in certain quarters, that towns and cities are something independent of the surrounding rural regions, and that the surrounding rural region does not in any way benefit from the presence of the town or the city appears to me to be entirely wrong It is on the basis of this theory that people consider it unreasonable on the part of the Central Government to give subsidy or grants in aid to the municipal administrations. If the theory were correct, then the principle on which the Central Government should advance funds in aid of municipal finance would have been a simple one There I should have expected the Central Government giving only so much as was necessary to spend on national or onerous services But I do not believe in the principle initiated above To me, the city or the town in the centre of its surrounding rural region occupies very much the same place as head and heart do in the human body. I would therefore freely accept the legitimacy of general governmental funds making unconditional contributions in aid of local finances. However, I would modify this principle to a certain extent and that to ensure

to the development side of rural areas. Even supposing that their judicial work were either diminished or completely taken away from them, then they could very well and should give their time to the encouragement of co-operation, sanitation and other works of agricultural development, which hardly receive any attention from them now.

Thoughts on Indian Finance

(A Paper read by Mr Bhatnagar before the Economic Conference at Benares, 1925.)

The termination of the Great War and the introduction of the Montagu Chelmsford Reforms, have both in their own way left some mark on the finances of India. The War in its cumulative effects has succeeded in raising all around us a desire for more funds The Military budget which in its untrimmed condition used to stand somewhere about thirty crores in the years immediately before the war, now, they say, is impossible to bring down below sixty crores, and that too after all the cuts applied by the Inchcape axe. The great inflation of currencies in Europe and to a certain extent in India also, raised the level of prices, and thus on the one hand reduced the value of money received in taxation by the Government, and on the other led the various Services under the Crown to ask for more on the basis of higher prices, both leading to a strong demand for more taxation The Montagu Chelmsford Reforms, by separating the Provincial finances from the Central finance of the Government of India, succeeded in bringing about a further reduction in the resources of the Indian Government To make good this deficit they introduced the system of Provincial Contributions, and that in its turn has brought about stringency in the various Provinces, and that at a time when the Reforms have placed the Development Departments under Ministers responsible to the popular Legislatures Whatever may be the opinion of political leaders, to me it seems that much of the unpopularity of the Reforms may be attributed to the lack of funds at the disposal of the Ministers, who with all the good intentions could do very little to improve the condition of the people. If Dyarchy has failed, much of its failure is due to this initial mistake To me therefore the problem of Indian finance presents a two-fold aspect First, how to secure increased funds for the Central Government to meet the expenditure on subjects pre-eminently Central such as the Army, the Navy, the Air Force, the Posts and Telegraphs, etc. The same is true in greater measure of the Provinces, where not only more funds are needed for the present, but also from the nature of the subjects assigned to them, they would continuously need more and more Secondly, how to bring about a division of sources of income and expenditure between the Central and the Provincial Governments, so that each may have its legitimate sphere of influence, and yet be perfectly independent of the other The division as it is at present puts practically all the services such as Education, Sanitation and Industrial Development that need expansion and further development, and on which, as the country becomes more and more organised, the chances are that more and more expenditure will be needed, under the Provinces, while it assigns almost all the sources of income which have been yielding progressive income, such as Customs, and income from Railways, Posts and Telegraphs to the Central Government And these are pre-eminently the sources from which incomes is likely to increase with every increase of material civilization in this country The only source of income under the existing arrangements which is progressive and expandable, and from which Provinces get a share is the Income tax But it is almost an insignificant source as the Central Government has only permitted the Provincial Governments to retain a share in the growth of the income tax, when this growth is due solely to an increase in the amount of income assessed, and is not due to any increase in the rate of the tax This is arranged by giving to the Provinces three pies on each rupee of income assessed *minus* whatever this amounted to in the years 1920—21, less also one-fourth of the costs of collection Even as it is the arrangement is but a temporary one.

We may begin now with the second problem. At present the chief sources of income o[illegible] 3) Salt-Revenue, (4) [illegible] Telegraphs Opium [illegible] ly sustained tendency [illegible] is such a

---

1 *Vide* Table A.

valuable, and dependable asset of the Imperial Government that a slight increase in it succeeds in bringing a large income to the Central Exchequer. In it the Government of India have a source of income wonderfully suited to meet emergency expenditure While in sources of income such as Income tax, the Customs, and Railways they have sources that have been expansive, and are expandable True, if India adopts a rigid policy of *Effective Protection* the income from Customs is likely to decrease after some time and not increase as some enthusiastic writers seem to suggest, *i e*, when the policy of Protection will have made itself felt, and succeeds in developing home industries. But when income from Customs begins to fall, the chances are that the taxable capacity of the classes that contribute to the Income-tax will have increased and the receipts from Railways, and Posts and Telegraphs are sure to increase also and thus make amends for any decline under Customs. From this brief study it should be clear that the Government of India have sources of income which have in them all the necessary attributes to meet all possible calls on them, under their various responsibilities.

I wish we could say the same of the allocation of sources of income and of expenditure in the case of Provinces The chief sources of revenue of the Provinces at present, are (1) Land Revenue, which at least in Bengal, Bihar and Orissa, and part of the United Provinces of Agra and Oudh is rigidly fixed, and in others is capable of increasing only after long periods of thirty to forty years. It is true that income from this source, as evident from the figures under this head[1], is secure and substantial It is also expansive, and chances are that as progress in agriculture proceeds, income from this source will also increase But as yet nothing serious has been done to make agriculture progressive, and we do not see any signs of rapid development in the near future On the other hand, all students of rural economy will agree with me that it needs large initial funds to put it on a progressive basis. As it is, it may be looked upon as a source of progressive expenditure rather than of expansive income. And even when it becomes expansive in character, from its very nature, it will never be expandable at short notice (2) Excise Income from this source has been progressive but if the popular Ministers are to keep the confidence of the public, and if they seriously set out to discouraging consumption of drugs, then at least that part of this source which is derived from the licensing of liquor shops is bound to fall much below its present level, if not to disappear completely, in course of time. But the income from that part which is levied on home production of things like cotton cloth, and other commodities surely gives to the Provinces an item that has in it the merit of expansiveness as well as expandability as the Provinces progress towards greater and greater efficiency in production But as it is, there is not much chance of its being utilised for the increasing needs of the immediate future of such development services as wider facilities for Education, Sanitation, Road-building and the like (3) Stamps, both Judicial and General Here again, are sources of income with the Provinces which have been somewhat progressive in the past But certainly that part of this income which is derived from Judicial stamps, though under the existing conditions of enormous litigation between the tenants and the zamindars on one hand and between co sharers and their creditors on the other, is substantial, is not likely to remain so, (at least efforts should be made to decrease it) when changes in tenancy laws, as well as the pressure of public opinion will have improved the relations between the landed interests, and when further development of Co operative Credit will have reduced the indebtedness of the landed classes to the age-old *Mahajan* of the village This does not mean that the income from this source taken as a whole is likely to diminish. If there is a decrease in the income from Judicial stamps it is not likely to take place in the near future, and by that time the working of the very forces that will tend to bring about a diminution in this, a change for the better is bound to come in that part of it which is yielded by the general stamps If people of India become progressive enough to diminish litigation, and to reduce their debts then they are sure to take to industrial development, and to greater share in commerce and trade · and both these would bring about an appreciable increase in the use of General Stamps (4) Irrigation: This is a source of income very much analogous to Railways with the Imperial Government Income under this head has been expansive in the past, but it has in it two inherent defects First, you cannot raise or lower the water rate with the same ease

---

[1] *Vide* Table B.

as the railway rates, and then the increased rate can only be operative after a certain definite time, and does not yield an immediate and continuous large income as an increase in the railway rates is sure to do It therefore lacks the very desirable attribute of expandability at a short notice to meet an immediate call on the Provincial finances. (5) Feeder Railways Certainly income from this would have gone some way to relieve the defects in number 4 but this source of income is as yet absent in most of the Provinces. And so long as Feeder Railways, running within Provincial boundaries, are absent this source may be looked upon as a hopeful sign of the future and not a tangible source of income for the needs of the near future

From this discussion it should be clear that though in the Provinces we have one or two sources like Excise, General Stamps and Irrigation, which have been yielding a progressive income in the past, and which hold a promise of larger income in the future, their contribution to the total Provincial revenues is by no means considerable, and land revenue may be looked upon as the mainstay of Provincial resources, and it is certainly not elastic The want of elasticity or what I have called expandability in the items of Provincial revenue is what comes out most prominently after the brief discussion carried on above.

Academically speaking, want of elasticity in the Provincial systems of revenue is a serious draw-back, and may suggest the need of giving serious thought to the re allocation of heads of revenue, as between the Central and Provincial Governments But a little discussion of the nature of the functions of the two Governments would show that the problem is by no means so urgent as that If there is a State, and practically all our Indian States and the Provincial administrations are in this category, that is seldom called upon to meet unforeseen expenditure on a large scale, then where is the need for such a State to have an expandable source of income like the Salt tax, or the Custom duties or the Income tax within its schedule of the sources of income? If there is a State which has to deal largely with services that are stable in character and that only need slow though steady expansion, then such a State should have only such sources of income as are likely to yield a slow but steadily increasing income, of course sufficient to meet the quantitative calls on them Certainly the calls on the purse of the Provincial exchequer are of this type They are substantial, but they are not sudden True, to start with, they need large funds for their schemes of development in the Nation Building Departments, but no serious student of finance has so far come forward to suggest that schemes of development that need investment of large funds in them, should be financed out of the current income of a nation The proper method of financing such schemes is by means of loans, and the interest *plus* the redemption charges only on these long term loans should be paid out of the current revenue Under the Reforms the Provinces have been given this valuable right of raising loans on the security of their revenues and some of them have made use of it whether for productive or unproductive purposes is a different matter

On the whole, then, we cannot say much against the distribution of sources of income as between the Central and the Provincial Governments, especially if we look at it in relation to the nature of the functions of the two Governments Even when examined in the light of general principles, which such authorities as Plehn or Bastable have laid down in this connection, the present allocation would justify itself The same however cannot be said of the existing system of contributions from the Provinces to the Central Government to cover up their deficit temporary or permanent recurring or non recurring The Central Government have got the Income tax, and the Salt tax, both these have ultimately to be paid by the people in the Provinces and both these are such as are capable of yielding larger income with an increase in the rate of assessment If there is a deficit, why should the Central Government approach the Provinces for contributions and thus cripple their resources and interfere with their even tide of progress in the prearranged schemes, why should they not increase the rate of such taxes as mentioned above, and thus secure the necessary funds? Ultimately the funds come from the people of the different Provinces whether they are taken by the Provincial authorities or by the Central authority but if the Central authority does it directly then the chances are that the incidence of the

whether a certain estate is liable to be assessed. But with the exception of permanently-settled Provinces, and Oudh in the United Provinces, this source of income is not likely to bring in appreciable relief to the Provinces. And we have to look for other sources of income for the Provinces.

Here the first to suggest itself is the scheme of super-taxation on all landed incomes beyond, say, rupees five thousand per year, at a progressive rate. In the permanently-settled parts of India the desirability and legitimacy of adopting this new taxation is beyond doubt; and it is here that this tax is likely to yield considerable income. This does not mean that in other Provinces such as the Punjab, the Central Provinces and the Agra Provinces, the tax is not likely to be as important as in the permanently-settled parts. Speaking for myself, I should adopt a higher rate of taxation of landed incomes, and a lower untaxable minimum in the permanently-settled parts, and that to make amends for the blunder of 1793.

We see, therefore, that if the Provinces are given back the money they now pay in Provincial contributions, and if they introduce these two new taxes, then their present deficits caused by the removal of taxes on home production (excise) and the General Stamps to the Central Government would disappear. And perhaps the only problem that would then remain for the Provinces to solve would be to provide funds for their schemes of development. To a certain extent this may be done by selling by auction large areas of *nazul* lands to the public. This would at once bring a considerable quantity of cash to the Provincial exchequer, and diminish the expenditure that is now incurred on the maintenance of the *nazul* staff.

But all these arrangements are not likely to solve the Provincial problem of providing a continuously expansive income. To me it seems that it can only be solved if the Provinces adopt a bold programme of development in the rural areas, and thus increase the production from land, and bring about an increase in the taxable capacity of the people. We are now in a vicious circle: the production of the agricultural industry is low, because our methods of production are backward, because the agricultural classes are ignorant and poor and cannot afford to make use of improved implements and better methods of farming. They are ignorant and poor because the industry does not yield enough. This vicious circle has to be broken, and to me its weakest link seems to be the ignorance and the lack of funds of the cultivator. The State in the beginning should provide funds for removing these, and that can only be done not by raising taxation, but by free borrowing on a large scale, and then the application of funds so secured towards the development of Co-operative Societies, drainage, and irrigation schemes, experimental and demonstration farms, education of the people in rural areas, both the landlords and the zamindars, and the giving of loans at easy rates to the agricultural classes for carrying out development schemes. What is wanted is a well thought-out programme of economic reconstruction, with its stages clearly marked out, the part to be played by the Government, the landlord, the cultivator, and the educated classes in its accomplishment pre-defined, and then the funds necessary to enable each class to function and do its work properly unhesitatingly provided.

TABLE A.

(IMPERIAL AT PRESENT)

(In thousands of pounds)

Year.	Opium.	Salt	Custom	Income Tax	Railways	Posts and Telegraphs
1898-99	3,817	6,017	3,201	1,281	13,076	1,993
1899-00	4,402	5,850	3,134	1,300	14,650	2,136
1900-01	5,102	5,967	3,372	1,322	16,941	2,248
1901-02	4,853	5,939	3 833	1,309	19,258	2,287
1902-03	4,498	6,184	3,978	1,410	19,116	2,304
1903-04	5,736	5,250	3,966	1,215	20,549	2,302
1904-05	6,022	5,355	4,362	1,270	22 869	2,472
1905-06	5,469	4,376	4,348	1,321	24,594	2,561
1906-07	5,061	4,363	4,352	1,424	26,276	2,704
1907-08	5 245	3,339	5,004	1 504	27 625	2,831
1908-09	5,885	3,276	4 832	1,553	26,871	2,804
1909-10	5,535	3,320	4,965	1,559	28,982	2,830
1910-11	7,522	3 176	6 619	1,593	30,669	2,994
1911-12	5,961	3,391	6,469	1,653	33,637	3 222
1912 13	5,125	3,334	7,197	1,742	36 764	3,437
1913-14	1,625	3,445	7.558	1,950	37 639	3,599
1914-15	1,572	3,911	6,347	2,037	36,176	3,597
1915-16	1,914	3,648	5.874	2,099	38,268	3,787
1916-17	3,160	4,826	8 559	3,773	42,063	4 175
1917-18	3,079	5,499	11 037	6,308	46 042	4 617
1918-19	3,289	4,278	12,121	7,758	50 944	5,343
1919-20	3,037	3,832	14 989	15,472	52,964	6,137

TABLE B.

(PROVINCIAL AT PRESENT.)

(In thousands of pounds.)

Year.	Land Revenue.	Forest.	Excise.	Provincial Rates.	Registration.	Irrigation.	Stamps.	
							Judicial.	Non-Judicial
1898-99 . . .	18,306	1,240	3,829	2,615	294	2,505	2,228	967
1899-00 . . .	17,205	1,235	3,860	2,499	288	2,397	2,370	992
1900-01 . . .	17,503	1,298	3,907	2,563	313	2,553	2,282	1,058
1901-02 . . .	18,288	1,157	4,077	2,741	313	2,531	2,290	1,054
1902-03 . . .	18,437	1,208	4,427	2,747	314	2,765	2,372	1,070
1903-04 . . .	19,234	1 481	4,980	2,825	327	2,907	2,453	1,131
1904-05 . . .	18,954	1 602	5,353	2,824	339	3,067	2,548	1,187
1905-06 . . .	18,862	1,780	5,688	2 798	362	3,007	2,642	1,259
1906-07 . . .	19,832	1,769	5,898	2,281	380	3,538	2,680	1,315
1907-08 . . .	18,756	1,733	6,219	2,333	415	3,486	2,921	1,517
1908-09 . . .	19,759	1,701	6,390	534	431	3,558	3,028	1,537
1909-10 . . .	21,332	1,735	6,538	539	430	3,660	3,231	1,525
1910 11 . . .	20,878	1,830	7 030	554	426	3,695	3,425	1,652
1911-12 . . .	20,765	1,952	7,610	549	446	3,980	3,352	1,686
1912-13 . . .	21,282	2,153	8,278	552	482	4,411	3,487	1,852
1913-14 . . .	21,392	2,230	8 894	180	519	4,713	3,634	1,979
1914-15 . . .	21,222	1,981	8,857	39	485	4,681	3,628	1,712
1915-16 . . .	22,031	2,074	8,632	42	519	4,779	3,694	1,854
1916-17 . . .	22,041	2,471	9,216	31	541	5,156	4,073	2,047
1917-18 . . .	21,607	2,731	10,162	29	528	5,064	4,019	2,032
1918-19 . . .	21,090	3,121	11,558	28	573	5,347	4,180	2,301
1919-20 . . .	21,610	3,578	12,840	36	724	5,853	4,646	5,304

Mr. Bhatnagar gave oral evidence as follows :—

The President. Q.—You are Lecturer in Economics at the University of Allahabad?

A.—Yes.

Q.—You say that we must have a classification of population on the basis of incomes and you say that the enquiry you contemplate will take not six months but at least twice or three times that period. Do you think it is possible for us to make an enquiry of that sort within the period of one year, the period allotted to us?

A.—You could have a rough estimate provided you have a sufficiently large staff working simultaneously all over the country

Q.—And don't you think it is possible to get any general indications without an elaborate enquiry—general indications as to the extent to which different classes are affected by different taxes, *i.e.*, such indications as the person responsible for the finances will generally look for when considering his budget?

A.—Personally I think he must have some idea of the expenditure of the different classes and the items that enter into that expenditure.

Q.—What does the Chancellor of the Exchequer proceed upon when he makes changes in his budget?

A.—He will have some estimate of course

Q.—Do you think he has any actual figures or general indications of the pressure of taxation on particular classes?

A.—So far as income-tax is concerned, I could say that he will have some idea as to how far it affects different classes.

Q.—Cannot you say fairly clearly in India which classes pay particular taxes?

A.—About income-tax we could say.

Q.—About land revenue?

A.—Yes, if you consider it as a tax

Q.—Customs is more difficult; but still you can know the items which fall upon all classes of the population?

A.—Yes

Q.—So you can decide the taxes which the poor classes pay?

A.—Yes, to some extent For instance, salt Practically all people pay.

Q.—Could you not say straight away which classes pay least tax? For instance, we are told that the class which escapes consist of the village trader, the *mahajan* and so on

A.—Even they must be paying something in salt

Q.—Yes, they pay nothing more than the poorest classes

A.—Whereas the small agriculturist pays something If you count the land revenue he pays more

Q.—Don't you think it is possible to arrive at general indications by a consideration of the stages I have indicated?

A.—It is possible; but the question is whether those general indications would be of any help to the Committee.

Q.—Before they are actually applied, would you like to see something in the nature of a mathematical enquiry?

A.—Not quite a mathematical enquiry You must have some real basis on which to proceed.

Q.—You do not think that the family budgets hitherto collected are sufficient?

A.—But till now only two or three sets of such budgets have been collected in the United Provinces and about four or five in the Bombay Presidency.

Q.—There were a good many of them collected during the last census all over the country. In Bombay for instance, we have family budgets of 6,000 families collected by non-official agency.

A.—But I fear they have not proceeded on the classification of population on the basis of incomes.

Sir Percy Thompson. *Q*.—Do you know any country in the world which has undertaken an economic enquiry of that kind?

A.—I do not know.

Q.—Still they have their systems of taxation

A.—The conditions in India are quite different In the western countries—when I say this I have England especially in my mind—the classes are very well marked and you can have a general idea about them; because most of them are either employed in industries or owners of land with definite incomes.

Q.—Can that be applied to Italy?

A.—I do not know much about Italy. But from the reports I have seen from that country, I can say that the data are available in larger quantity in Italy than in India.

Q.—With regard to income-tax (Q 33) you compare the rates in India with the rates given in Annexure E of the Questionnaire Between what limits of income in India would you suggest the rate of tax should be lower? When you get up to £1,000 the rate of income-tax in India is very considerably lower than either in England or Austria or France.

A.—I was thinking of the lower incomes For instance, it is 2 6 in India, while in England it is 1·2, in Austria 2·2 and so on.

Q.—But 1 2 refers to an income of £150 When you get up to £300, it is 6.8 It is rising very rapidly from 1·2 to 6·8 and it soon catches up the 2 6 in India

A.—Of course I say that for higher incomes we pay less but for small incomes we pay much higher

Q.—Your income tax is on the whole not by any means higher than that in any other country.

A.—That is true for higher incomes.

Q.—Even for the lower incomes, you will see that the British income-tax has caught up the Indian tax of 2 6 somewhere about £200 a year. For an income between 150 and 300 in England the rate is gradually rising from 1·2 to 6 8. But in India between 135 and 300 it is only 2 6

A.—But if we confine ourselves to the lowest limit we pay more.

Q.—Do you think that 2 6 is an unreasonably high rate of income-tax for incomes between Rs 2,000 and Rs. 2,500?

A.—That is a different question. The point that I wish to bring out is that in a comparatively richer country like England, they are required to pay a much lower tax on lower incomes

Q.—The subsistence level is lower in India than in England and therefore, an income of Rs 2,000 in India has a larger surplus value for taxation than a corresponding income in England

A.—I do not quite think so My idea is that a man getting Rs. 2,000 in India has far greater responsibilities than one getting the same amount in England.

Q.—What are the responsibilities?

A—There are marriages; relations have to be supported. If a man is well off in this country he has to support a number of dependants That is the custom here.

Q—It is an extremely bad custom.

A.—It may be; but it is there.

Q—But is it proper to make a concession for a bad custom?

A.—We have to make allowances for the existing circumstances, however bad they may be.

Q—In answer to Q. 35, you say it is desirable to make a differentiation in favour of earned incomes Everybody will agree with that. But the only question is whether in India the amount of unearned income, as long as you exclude incomes from agriculture, is sufficiently large to have a differential rate.

A.—When I had written that answer, I had also in my mind incomes from agriculture.

Q—Assuming that the present law exempting agricultural incomes remains, do you think it is really worth while to adopt that suggestion?

A.—It will be worth while if you tax agricultural incomes

Q—You also propose to make a differentiation in favour of incomes from capital invested in productive enterprises That is to say, you would tax the man who made money by his own exertions higher than the man who invested money in shares?

A—What I mean is this suppose there is a man who invested a certain amount of money in industries and there is another man who invested money in agricultural land Then I would tax incomes from agricultural land at a higher rate and the incomes from industries at a lower rate Because India needs industrial development and we should encourage the development of industries

The Hon'ble Sardar Jogendra Singh *Q*—But have you considered that agriculture is the biggest industry of the country?

A—But what is the amount invested?

Sir Percy Thompson *Q*—With regard to Q 36, do I understand that you would make an allowance for dependants other than wife and children?

A—I would; but I would leave it to the man who claims the allowance to prove it

Q—But why should you make an allowance?

A—There again there is the question of custom We have sometimes grandmothers and other distant relations depending on us

Q—Would you make an allowance for able bodied dependants?

A—You should not We must discourage that

The Maharajadhiraja Bahadur of Burdwan *Q*—Can you discourage it under your system of joint family? You may have a brother aged 10 or 11 who is an able bodied one, and who has also got to do some work Can you get rid of your brothers, uncles and so on, who may be able-bodied and who may be a sort of encumbrance on the family?

A—If he is a boy he will come under minors

Sir Percy Thompson *Q*—My point is, should you encourage making allowance in the case of such able-bodied persons?

A—You should not.

Q—You want to make allowance for wife, children and relatives who are incapacitated?

A.—Yes.

Q—In answer to Q 37, you say that you would leave the super-tax on companies in its present form Can you tell what is the justification for having any super-tax at all? The State gets a share of the profits when they are distributed by taxing them. Why should it be paid twice, once by the individual and once by the company?

A—If the profits of the individual fall below the limit, he will not pay it So if you tax at the source you will get something

Q—But suppose you and I enter into a partnership and we make one lakh of rupees. Then the income-tax will be charged on our respective shares. Suppose for purposes of convenience we form ourselves into a company with exactly the same relative shares Because it is a company do you think it is right to charge a super-tax on it? Again when the profits are distributed among us super-tax will be charged just as it would be if we were partners Is this proper? The super-tax is put on twice in the case of the company. Why should that be simply because we form ourselves into a limited company?

Q.—I realise it But the only justification is that the company has got a definite individuality It is just like a third party.

Q—So you want to tax it in two capacities, once as a company and secondly as individual shareholders who constitute the company?

A.—Yes; if the income happens to fall within the limit imposed The company has a definite identity and it will also pay like any other individual. I really do not see any injustice in that

Q—You say you are in favour of the removal of the exemption of incomes derived from agriculture Supposing the yield you get by including the agricultural incomes within the purview of the tax is small relatively to the amount of trouble and expenditure required in order to collect it That is, the expenditure would bear a relatively higher proportion to the yield Do you then think that it is worth while to collect the tax?

A.—What is the basis upon which you think that the expenditure will bear a very high proportion.

Q—I do not think there are any figures in existence I can only gather from indications I take it that you would agree that the profits of the cultivator could not ordinarily be taken at more than four times the land revenue. Now taking the Punjab for instance, there are 3½ million cultivators, out of which there are only 2,300 who pay as much as Rs 500 as land revenue; so that it means you have to deal with a thousand people in order to get tax from one of them It looks as if the amount of trouble and expense involved in administration would bear a very large proportion to the yield

A.—The existing machinery could be utilised for that purpose.

Q—It will have to be enormously expanded.

A—Not enormously.

Q—Do you think that the existing staff can deal with millions and millions of cultivators?

A—They will have to deal only with those people whose income is above the exemption limit.

Q—But you cannot know that unless you make enquiries.

A.—The Income-tax officer can find that out in the course of his work and from the existing records

Q—Would you charge incomes derived from agricultural rents?

A.—Yes Because I do not think there are a considerable number of actual tillers of soil whose income will be more than the minimum.

The Maharajadhiraja Bahadur of Burdwan. *Q*—Would you impose this tax over and above the land revenue?

A—I would not reduce it; I will have it over and above the land revenue

Sir Percy Thompson Q—You say in every district in the Collector's office a list is maintained wherein the zamindars are graded according to their incomes.

A—Yes

The Hon'ble Sardar Jogendra Singh. Q—You recommend a tax on agricultural incomes?

A.—Yes

Q—What is land revenue in your opinion?

A.—Land revenue in the raiyatwari areas or what?

Q.—Taken as a whole

A.—We cannot take it as a whole because the conditions are so very different When I give my answer it is strictly and purely from a theoretical point of view I am inclined to think that land revenue in raiyatwari areas is a kind of rent.

Q.—Have you studied any systems of land tenures?

A.—Indian systems of land tenures

Q—Baden Powell's book on Land Tenures?

A—That has been my special subject So far as the present system is concerned, it has been altered in details but not in principle

Q—Would you accept the definition given by Baden Powell? He comes to the conclusion that land revenue is *per se* a tax on agricultural incomes

A.—No I have read it so many times Land revenue is a rent in raiyatwari areas. It is something approaching a tax and not quite a tax from the strict economic point of view

Q.—What is your definition?

A.—My definition of a tax is that it is a compulsory contribution

Q—Then land revenue is not a compulsory contribution

A.—It is; but there is another item in that your tax generally changes with the income

Q—It is not elastic; it is fixed for a certain period

A.—If you fix it for 30 or 40 years it ceases to have any relation to the income and therefore loses the character of a tax

Q—That is the only thing?

A.—Elasticity will come in from the point of view of the State. So far as the compulsory contribution is concerned we can call it a tax But so far as the other attribute, *viz*, that it should have a close relationship to the income, is concerned, I think it is not a tax.

Q—You think it has no relationship to the income of the producer?

A.—Certainly it has not, because what you find is that you fix the land revenue to-day for 30 years The income of the landlord may increase in the meanwhile and it actually increases Every year we find a number of suits brought against the tenants for the enhancement of rents The largest number of suits come in only after settlements

Q—Then in fixing the new tax on agricultural incomes you would first fix the land revenue and then the income

A.—If any landlord has an income of more than two thousand rupees—and if that is the taxable minimum—I would tax it exactly on the same lines as others.

Q—Would you have any specific canons of taxation, as that fifty per cent of the income should go for tax?

A.—There is a difference between the income of the landlord and the income of the tenant The landlord gets the income for doing nothing absolutely.

Q.—You do not think that he represents capital and what he gets is a return upon the capital. Take, for instance, an estate On what basis are the estates being sold?

A—I am myself a landlord

Q—If the yield is capitalised the income will come to about 3½ or 4 per cent. On this you pay 50 per cent. tax. If the income were to be again assessed to income-tax it will be double taxation

A.—Your statement may be true in the case of recent purchases. I know of villages that have been purchased for 2, 12 and 1,200 rupees which if capitalised now would fetch lakhs. What capital would you take in such cases?

Q.—So in a taxation question you would divide people into those who have inherited and those who have not inherited?

A.—It is difficult to make that distinction.

Q—Don't you think it would be difficult to put it within the canons of taxation?

A.—I do not know what canons of taxations have to be adopted there.

Q—You say agricultural income must be taxed. My point is that it has already been taxed.

The President. *Q*—I understand that the proposition is this. If a thousand rupees is to be invested in land the return on that, you say, would be about 30 rupees or three per cent. Is that net or gross? Is that after the deduction of land revenue?

A.—That should be after deduction

Q.—You don't then take Rs 15 out of that Rs 30 for land revenue?

A.—No

Q—Then land revenue is not deducted from the interest of the investment and what you propose is to assess on the interest on that investment just as you would in the case of other investments

A.—When money is invested in factories the income is assessed.

The Hon'ble Sardar Jogendra Singh. *Q*—Your reason for levying this assessment is what?

A.—If you ask me what the real reason for levying this tax is, I may say, although I may not have much experience, there is one thing shocking. The people who are getting the income are doing nothing for the agricultural classes. When they don't do their natural and responsible duties towards the ryots and are shirking them the State must do them for them, and the landlords must pay for it

Q—Then it is a sort of socialistic ideal

A.—You may call it socialistic; but that is my idea of landlords, tenants and Government.

Q.—You laid a great deal of stress in answering the questions of the Chairman about ascertaining the taxable capacity of the people Have you ascertained the taxable capacity of the agriculturists and the landlords?

A—No But certainly we could find out the income of the landlord if it is more than Rs. 2,000 or any other minimum that may be fixed in future.

Q.—You have never ascertained the taxable capacity of the landlord. Have you ever ascertained the taxable capacity of the agricultural classes as a whole?

A.—Tenant classes?

Q—They both are agricultural classes. Would you except the tenants altogether?

A.—In some years you have practically to exempt them altogether.

Sir Percy Thompson. *Q*—You do not propose to tax them unless the income is more than Rs 2,000

A—Yes.

The Hon'ble Sardar Jogendra Singh *Q*—So in determining the available surplus for taxation you would deduct the land revenue and provide a certain amount for other allowances according to modern canons of taxation?

A.—Yes, but what do you mean by the available surplus for taxation?

Q.—You will have to find out what cannot be taxed, will you not?

A.—If you are taxing the income above a particular minimum, have you not made an allowance already?

Q—Even in the case of the income-tax a person is not assessed merely because a man is getting Rs 2,000

A.—That means you will have to find out how many members there are in a family

Q—Have you studied the Income Tax Act?

A.—No

Q—Again you base your views on theory?

A—Yes, I am a student of economic theory with some practical experience of life.

Q.—You merely want to transplant them because they have been found useful in certain countries of Europe You would like to transplant the super-tax, the tobacco tax and a great many other taxes which have come into existence in Europe to this country You merely want to transplant them because they have come into existence in Europe or have you studied the actual conditions?

A—It is necessary both from the moral and economic point of view.

Q—In income-tax we have got two or three considerations, *viz.*, the needs of the State, the capacity of the people and the simple way in which it works. Some of the taxes that are now recommended would not work as easily as the taxes that have come into existence by slow growth People think that some of these taxes should be abolished and you think that they are desirable.

A—You should give me definite instances

Q—The State has been content with taxing agricultural land and that has been the basis so far You say tax the agricultural income also, apart from what is paid in the shape of land revenue

A.—That is again a tax

Q—You would divide central taxation and provincial taxation?

A—Yes

Q—The central taxation is used for defence?

A—Yes

Q—Provincial taxation is for local purposes?

A—Yes

Q—Have you known that in the last five years the nation-building departments have not been very much developed or that there has been a growing demand for more expenditure on those objects?

A—In actual practice you will find that the majority of the Council consists of zamindars

Q—May I point out that 80 per cent of the tax-payers are zamindars and they must be represented?

The President *Q*—Has there been a demand for more money for the nation-building departments?

A—The people have not got the capacity to speak for themselves. The classes that represent them are not interested in them, whatever may be the reasons, to make a demand for the nation-building departments. That is my reading of the situation.

A.—Yes.

Q—How would you deal with imports?

A—We have that already in Bengal.

Q—And in Burma?

A.—I never had Burma in my mind, because I never look upon Burma as an integral part of India.

Q—What will you do about imports into Bengal?

A—If you could give them as good salt as they get from abroad, the position would improve under Government monopoly.

Q—Would you prohibit imports or would you restrict them on behalf of Government?

A.—I would do the latter

Q—You would go in for big scale production?

A—Otherwise there will be no profit.

Q—Does not the salt industry add to the livelihood of the agriculturists?

A.—I doubt very much if a large quantity of salt is being manufactured in villages

Q—There are 64 salt factories all round the Madras coast and the labour they get comes from the fields.

A.—They could still be employed by the State

Q—The whole point of large-scale manufacture is that you can dispense with three-quarters of the labour.

A—Then the people on the Madras coast and about Sambhar Lake would suffer.

Q—Sambhar Lake is a big-scale production. It is done by electric pumping and transport.

A.—The number of people engaged in the salt industry on the coast of Madras form a very insignificant part of the whole population of India. They should be getting the salt much cheaper if we had large-scale production.

Q—Do you consider that it would not matter if they suffered?

A.—Yes.

Q—Similarly, you would not mind the Bengal consumer paying a little more?

A.—He would have to pay a little less

Q—Actually he gets his salt cheaply from abroad

A.—Do you mean that, if the industry comes under State control, prices would go up?

Q—Probably Bengal would have to pay more, because they will have to pay the railway freight

A.—If Bengal consumes a greater part of the salt from abroad, the State could not apply the monopoly idea to Bengal They should allow them to use the salt from abroad and undertake to provide salt to the other parts of India

Q—One of the advantages of big-scale production would be that you make India self-supporting and in case of another war you would not have the supplies cut off

A.—Government could supply the remaining parts of India with salt; Bengal might continue for some time to import its salt and before another war you might be able to meet the demands of Bengal by extending your production

Q—Unless you cut down the railway freights very much it would be always difficult to do

A.—It will only be a temporary expedient to cut down the railway freight.

Q—Can you tell us in the first place whether salt is sold by weight or by measure in the United Provinces?

A—As far as I know, I think it is sold by weight.

Q—You have no personal experience in the matter of sifting?

A.—Some part of it is blackish in colour, some more white and they divide it into two or three classes, each having a separate price

Q—That is, in the shops here?

A.—Yes

Q.—What salt is it, Sambhar or Khewra salt?

A.—Sambhar salt.

Q—The process you refer to is not the one adopted in the Bombay factories. There they pass it through a screen in pretty large crystals You have no experience of that system?

A—No. I may add that, whether we adopt the Bombay practice or the U. P. practice, it allows the seller to charge a minimum price on the worst quality salt, whilst much higher prices are charged for better grades

Q—The variation in price is purely with reference to quality.

Let us pass on to your answer to Q 61 You say that the only result of compulsion wherever adopted seems to have been to drive the drug habit underground.

A.—Yes I have been reading reports every day from America of illicit importation.

Q—Have you any experience in the United Provinces of the result of the action recently taken?

A.—Illicit production has increased in this province

Q—Have you any personal knowledge of it?

A—No

Q—You think the policy has gone too far?

A—Not yet, because our revenue has not begun to fall

Q—The revenue has fallen very considerably

A—Not much

Q—I think the decrease was 7 lakhs last year

A—That only shows that we have reached the maximum point If we go beyond that we would be increasing illicit production and diminishing our revenue

Q—In reply to Q 70, you say that the *tari thikedar* pays from 8 annas to Rs 2 per tree to the owner of the tree in addition to taxes to Government and that you are inclined to think that there is margin for further taxation

A—Yes In the Agra district they pay on the basis of trees

Q—The tree tax system is an attempt to levy something corresponding to the still-head duty; you cannot wait until it is drawn and measured What you do is to require the man who wants to tap trees for a particular shop to put in an application naming the survey number and the number of the trees He pays you Rs 3 or 4 per tree as a tax on the assumption that each tree will yield a certain quantity Each tree is marked and if any tree is tapped without having been marked, it is an offence

A—Yes

Q—A levy per tree is quite a different matter to the sum paid to the owner?

A.—Yes, it is paid to the owner over and above the tax to Government.

Q—You say there is a margin for further taxation and you recommend the adoption of a tree-tax on the lines I have described. So far it has only been introduced in a very small area and Government do not propose to extend it.

A—It would be advantageous to do that and find out the average yield of *tari* from trees in different localities

Q.—Your reply to Q 93 You think it quite legitimate for the State to charge a fee for registration over and above the cost of the service rendered? I do not quite understand what you mean by a "progressive scale"

A.—If there is a deed for Rs. 1,000, one rupee is charged for its registration If there is another for Rs 2,000, a higher rate should be charged, *i.e.*, not Rs 2, but Rs 3, say.

Sir Percy Thompson *Q*.—You say that local bodies should be given power to tax the increase in the land values How you set about doing that?

A.—If in a particular locality land is being sold during a particular period, you can find out whether the value of land is increasing or diminishing.

Q.—Increased from when? What is your time-limit?

A.—Suppose in 1925 the value of land is Rs 2,000 Next year you find the same kind of land would fetch you Rs 3,000, that means there is an increase in the value of land

Q.—Are you going to value all land in 1925 throughout India?

A.—You will have a basic year. It wouldn't mean any new organization.

Q.—Is that what you are going to do?

A.—Otherwise, we can't have a tax.

Q.—Do you know it was tried in England in 1909?

A.—I think it was tried in some municipalities in western countries, in America especially, and they have succeeded remarkably.

Q.—I should not say they succeeded remarkably. They certainly did not succeed in England. The measure was passed in 1910 and it took over five years to value the land in England and it was not a success, and the increment tax was abandoned in 1920

A.—I was reading some time ago an article by Mr. Darling on the value of land in the Punjab and I found that there is great and continuous increase going on

Q.—We know that perfectly well The question is · how are you going to measure it? Suppose a man in 1940 sells a piece of land for Rs. 10,000 How are you going to have an increment duty charged on the land?

A.—If you decide to impose an increment tax on land in a particular locality we will value all land in that locality in a particular year, taking that year as a basic year. Next year you will find by how much the price of land in the locality has increased I would have a new valuation and on that new valuation we would take taxes

Q.—The point is whether you will have finished the first valuation by the time your second valuation comes along

A.—They have been able to do it in other countries, especially in America.

Q.—*They have not been able to do it in England.*

A.—Is that a reason why we should not be able to do it in India? If this task were to be undertaken by local bodies, such as municipalities and District Boards, I think they could do it within a time limit.

Q.—Do you think the annual valuation of the houses in those localities in which a house tax is charged is satisfactorily done?

A.—The house tax is at present charged on the rental value.

Q.—Do you think the rental values are fairly accurately estimated?

A.—I think they are fairly accurate. I have no inside knowledge of municipalities. If you ask me generally, I would say that there is certainly some lack of efficiency in the administration of municipalities If we have an efficient staff to find out the rental values, they could do it.

Q.—Suppose land is worth Rs 2,000 in 1925 In 1928 the owner builds a house on it which makes the land enormously more valuable. When you come to review the property for the purpose of increment value, how are you going to charge it?

A.—We would try to find out the value of the land in that particular year If the house is built in 1928 we cannot charge any tax on the value of that, we would not be justified in doing it.

Q—I have not followed you, are you going to eliminate the house or not?

A—The year the house is built we would have to eliminate After that, we would take that also into consideration

Q—What is the basis for charging in 1928?

A.—Suppose there are a number of houses in a particular locality and in that locality either a bazar is built or a road is opened by the municipality or District Board It causes a general increase in the value of land and houses in that locality, we can find that out easily There may be practical difficulties.

The President Q—Would it not be simpler, to begin with, to secure a substantial property tax from these non agricultural lands which at present pay no land revenue?

A.—That will be true in the case of municipal areas

Q—Even in other areas there is a good deal of land which does not pay land revenue You have very little in the shape of a property tax in the municipalities in the United Provinces at present You have two or three towns where it is limited to 6 or 7 per cent, whereas in England municipal property tax runs to 100 per cent on the annual value Suppose you take a substantial property tax, would not that effect your purpose without involving you in the difficulties of assessment and increment?

A—How are you going to assess the property tax?

Q—Simply by valuation What they do in Madras is generally to employ a Deputy Collector to make a valuation and that would carry on for ten years

A—You will have a revaluation again after the period of 10 years Then the only difference between my proposal and this one is that I take the annual value and in this case it is done in a period of 10 or 15 years

Q—The difference is that I tax the value of the property simply, whereas your proposal is to tax the increment value

A—If you measure the value of the property after 10 years, surely you would have included any increase in value due to the causes we have mentioned

The Hon'ble Sardar Jogendra Singh Q—The former proposal is more simple, don't you think so?

A—From an administrative point of view, yes

Q—You recommend these taxes, because you say such a thing happened in America Have you studied the land systems in America England and other countries; do they pay land revenue as a revenue or only as a tax?

A.—They do not pay land revenue as we do in this country

Q—It will be very interesting for you to study the conditions in those countries and if you find that the conditions are not similar, you may be doing an unfair thing by recommending proposals of the kind you have done Your object, I take it, is to benefit the people of the country?

A—That is my idea

Q—That will only be possible if you study the conditions in all countries

A.—In towns like Lucknow, which are making vast progress and where developments take place, land value will always increase I do not know where the question of similarity between America and this country comes in

The President Q—In your proposals for new taxation, you advocate a succession duty?

A.—Yes

Q.—Have you gone into the question of how you would deal with the joint Hindu family, or would you leave it to us?

A—If in a joint Hindu family a man dies leaving four sons, each man having a definite share, I would levy a succession duty on each individual share

Q—How would you deal with the case of a deceased member who is only an infant? A child as soon as he is born becomes a sharer and infant mortality, as you know, is rather high in this country.

Sir Percy Thompson. Q—Suppose the value of the property is Rs. 1,00,000 and it belongs to a man and his four sons jointly and the father dies

A.—One method would be to take the property as a whole and charge a succession duty on Rs 1,00,000, the other method would be to charge a succession duty on each individual share.

The President. Q—You recommend charging on the share?

A.—Yes.

Q—Would you impose a charge on the share even in the case of minors?

A—The minor benefits equally.

Q.—He benefits equally, but would not the charge tend to become heavier? When the child dies, again a succession duty will have to be charged, because of the great infant mortality in India

A.—It would tend that way.

Q—It will tend this way that the whole estate will be charged more than once in a generation. What will you say to limiting the charge to the death of adults and charge only on the death of persons who are more than 18 years old?

A—I think we will be justified in doing so.

Q—You propose making tobacco a monopoly?

A—Yes, on the same lines as poppy cultivation.

Q—Have you considered the table of tobacco cultivation which we have given in the Annexure? Almost every district in India is cultivating it

A.—I have seen it.

Q—You realize there will be administrative difficulties?

A—I realise that point.

Q—Another monopoly you recommend is explosives?

A.—Yes.

Q—Not fireworks? Would they not be subject to monopoly?

A—I have not spoken from the monopoly point of view, but from the taxation point of view If there are no administrative difficulties, it can be made a monopoly. I am not quite certain about that.

Q—But all fireworks are licensed now?

A.—Yes.

Q—Now the further stage is only to have a monopoly?

A.—That may be desirable from more than one point of view. I do not like that people should waste their money on these fireworks.

Q—Then you recommend a fee for registration of marriages?

A—Yes, it is very desirable

Dr. Hyder. *Q*—Do you think it is also politically expedient?

A.—I do not know how it is going to affect matters politically

Q—People would begin to say, here is a foreign Government which is interfering with our customs and institutions

A.—I do not know how it interferes with our customs and institutions. Many cases come before the Courts where people deny their own marriages

Q—It was misrepresented in the Punjab during the last agitation Some people made capital out of it It might be all right if the Government of the country was national, but with a foreign Government, don't you think there is any political danger?

A.—I think there is no such danger. In that way every tax can be misrepresented

Q—I ask you to consider this proposal and give your opinion in it not only as an economist but also as a politician and as an Indian, whether it is desirable?

A—The only point which strikes me is this It may be undesirable from the political point of view, but from the social point of view it is desirable For the legal evidence of the marriage it is quite right, but when you bring in the idea of the political point of view, I cannot give any definite opinion on it

The President *Q*—How will you have this registration charge? Will you have it graduated?

A—We should not have any graduation, but we must have one uniform registration fee

Q—Do you think there is any precedent for this in ancient Indian history?

A—I don't think there is any, so far as my knowledge goes, but I think Kautilya mentions it in *Arthashastra*

The Hon'ble Sardar Jogendra Singh *Q*—Don't you think the need of the country is accumulation of capital?

A.—I would put in another way The need of the country is the investment of capital I don't think it is of any use to hoard the capital

Q—Don't you think that the succession duties in England and other places are a modified form of levy on capital?

A.—In the case of certain estates it might be so, but not otherwise

Q—Do you think the time has arrived in India to levy succession duties?

A—What about succession duties on landed estates?

Q—Have you considered how agricultural land is going to be subjected to succession duty without modifying the Hindu and Muhammadan law entirely?

A—I wonder how the Hindu and Muhammadan law comes in here Succession duties do not govern the law of succession but simply deal with the part of the property which goes to the successors

Q—Supposing you weaken the stability of this country altogether, don't you think you are weakening the system which is responsible for the progressive realization of its dreams?

A—I have the majority of landlords in my mind The general view is that the landlord class has not done anything I am not recommending it from the point of view of equal distribution of capital. That is not the only function of the succession duty I started from this view that the State needs funds and it must have them for the development of the country and this is one of the ways by which you can have them

Mr. MUHAMMAD ASLAM SAIFI, M.L.C., Meerut, was next examined.

Written memorandum of Mr. Aslam Saifi.

I am firmly convinced that the salt tax should not be utilised for making up revenue whenever a deficit stares the Government of India in the face It is a tax which weighs heavily upon the poor people and although salt may very well be a source of raising a tax from which no one can escape, as no one can do without it, but so far as its use goes, the rich do not use it any more than the poor, for there are many luxuries which the rich enjoy without their being taxed

My only suggestion in this reference is to introduce a tax on tobacco which is used in one form or the other by almost all classes of people and it cannot be denied that it is a luxury.

Without being in possession of the statistics bearing on the subject, I can say, being confident that I am within the mark, that 40 per cent of the people in the United Provinces use tobacco either by way of smoking or in *pan*. Assuming that there is a population of 45 millions in these provinces, the number of users would come to 18,000,000 and if the average expenditure on tobacco be taken as Re. 1 per year it will represent Rs 1,80 00,000: an average tax of 5 per cent on this will mean Rs 9,00,000 in the United Provinces alone. This is, of course, a moderate estimate There are numerous varieties of tobacco and if they are to be taxed, the rate should be progressive say from 5 per cent to 20 per cent. The best quality of tobacco used in *pan* is sold at Rs 50 per seer

As regards the control to be exercised by the Government, I am of opinion that it should be by means of licences to be issued both to the cultivators and to the manufacturers I do not like that permission be granted to the cultivator to grow tobacco in any quantity for his own use And neither do I like that the monopoly be given to a private company in which the Government should have a predominant share

I will also suggest that the tax should be imposed upon the manufactured tobacco in whatever form it be used I also hold that in addition to the import duty there should be an excise duty upon the imported tobacco such as cigarettes and cigars The reason why I have come forward with this suggestion is that the tax on tobacco should enable the Government to keep the tax on salt at its lowest point if it cannot altogether be abolished

To stop smuggling from Indian States will be quite as difficult a job as it is in other lines such as opium or country liquor But there is not much risk of smuggling regarding tobacco since the tax would not make so much difference in prices so as to prove a temptation to the smugglers.

Q 121.—I entirely agree with the statement.

Q 122—I think the suggestion embodied in part (4) of this question is the most feasible one, the manufacturing should be allowed by means of licenses.

Q. 133—I prefer *ad valorem* duties on the manufactured products, and as the licensees will be under the absolute control of the Government there is little chance of the duty being evaded

In the end I will suggest that the duties of controlling and supervising the monopoly on tobacco can be entrusted to the Excise Department and thus the expenditure will comparatively be little

Mr. Aslam Saifi gave oral evidence as follows :—

The President. Q—You are a member of the United Provinces Legislative Council and a resident of Meerut?

A.—Yes, Sir.

Q.—Your view is that the Salt tax should not be utilised for making up revenue whenever a deficit stares the Government of India in the face That is, it should be either abolished altogether or reduced to the lowest possible point?

A—I think it should be kept at the lowest possible point

Q.—You think an acreage tax on tobacco might yield about 9 lakhs of rupees in the United Provinces?

A.—I think so But it might be very much more than that also It is a mere guess.

Q—As regards the method of control, you say, that it should be by means of licenses to be issued both to the cultivators and to the manufacturers. Have you examined the question of a monopoly?

A—I have looked into the question and I think the monopoly can be worked only in two ways, either to have the entire stock of tobacco grown in the country taken over by the Government and then manufactured or sold, or by issue of licenses to the cultivators and also to the various manufacturers and thus secure the necessary tax.

Q—You prefer the second system? Will you explain to us in a little more detail how the system of monopoly is to be worked out?

A—The district where the tobacco is grown should be known to the Government and there the licenses should be issued The product must be taken over by the manufacturers as they carry on their business

Q.—Are you prepared to charge the cultivators any tax?

A.—No I should not do that The object of issuing licenses should be simply to know how much acreage is under cultivation and how much tobacco is to be sold

Q—You propose to require any cultivator who grows tobacco to apply for licenses?

A—That is the first stage

Q—You think the whole of the produce is to be sold to the licensed manufacturer?

A—Yes

Q—Are you going to charge him a license fee?

A—Yes

Q.—And then are you going to charge excise duty on issue by manufacturers?

A—Then of course the manufacturer will have to add to his price the tax that he has to pay to the Government I would charge excise duty

Q—No further tax on retail sales?

A—I would confine it only to the wholesale producer because the tax imposed by Government will be borne by the manufacturer himself

Q—You are going to graduate that tax with reference to the quality of the produce?

A—Yes Because there are various kinds of tobacco

Q—Is there not a great deal of tobacco which really undergoes no process at all?

A—Very little Generally tobacco is prepared in the form it is smoked or eaten with *pan*

Q—Is it not dried and put in a twist and chewed in that state?

A—It is mixed with sugar It has to be dried first of all and then powdered and then mixed with sugar.

Q—Thus the manufacturers would be under the control of the Excise Department?

A—Yes.

Q—How many officers you think would be required for this purpose?

A—I can't say the number required.

Q—It will be just like the bonded warehouse system?

A.—Yes.

Q—Have you studied the figures of tobacco cultivation?

A.—Yes I have gone through the figures

Q—Would you have any minimum quantity?

A.—You mean that the cultivator should grow?

Q—In order to prevent multiplication of petty factories, just as in the case of distilleries?

A.—There are manufacturers in every district. If the dried tobacco is to be sold to them they can carry on their business But these manufacturers should be under the control of the Government and their work should be supervised by the Excise Department

Q—Then if you have a large number of small factories, the cost of supervising them will be very large?

A.—They will not be so numerous. I am referring only to the wholesale manufacturers My idea is that the small manufacturers should be eliminated from this.

Q—What would be the process of elimination?

A—It should be that the licenses would be issued only to the big manufacturers

Q—How would you ensure that? Would you impose any limit of private possession? Are you going to make the cultivator sell his tobacco to the manufacturer and show that it gets there?

A.—I suppose that should be managed by very careful supervision and on the estimate of the crop

Q—Then will you have any document showing the sales?

A—I think it can be worked out as to what quantity of tobacco is produced per bigha If there is only a very little tobacco, that will be kept back by the cultivator

Q—Would you impose any restriction on the size of the factory?

A.—No.

Q—Would you also impose any limit on the area to be cultivated? Would you issue licenses for a hundred acres or fifty or ten acres and so on?

A—I won't fix that Those who go in for this sort of cultivation, generally require a large acreage for it.

Q—What would be the minimum area which should be issued for cultivating licenses?

A.—I do not think it is necessary. If the area is very small, he would not pay.

Q—Is not tobacco grown near the village sites?

A.—Here it is not grown like that

Q—Is it not grown in the backyard plots near the village sites?

A.—It may be like that at present. But those who are going in for this class of business won't do that

Q—Would you expect it to be confined to people growing 10 acres or so?

A.—If it is absolutely necessary, a minimum might be fixed

Q—You have not worked out the scale of rates of duty?

A.—No.

Q—Have you any acquaintance with the system obtaining in Patiala State? They have got a system of taxing tobacco somewhat similar to your's but a little more primitive. The idea there is to sell the monopoly of an area to a particular individual by auction He has the sole right to sell tobacco in that area whether imported or locally produced. As far as I understand the rest of the scheme is just like your's.

A—I personally would not accept that, because it gives the monopoly to a particular man to sell within a certain area.

Q—But your scheme would cost a good deal to control?

A—I cannot say off-hand what it would cost to supervise, but still it should be possible that the cultivators who grow tobacco will be known to the department The quantity produced out of these fields will also be known. The only point that remains is the possibility that they might not deliver that quantity. How to check that is the question But such a quantity would be very small, and as we go on gaining experience it should be possible to overcome this difficulty too.

Q—Would you have a limitation of possession in the case of tobacco?

A.—I think we shall have to have it

Q.—What will you fix it at?

A.—I think the quantity required will be more than a pound or so

The Hon'ble Sardar Jogendra Singh *Q*—What is your objection against the Salt tax?

A—It weighs heavily on the poor people. My experience in this connection is confined to the war time when people had to pay this tax very heavily and moreover the poor people cannot avoid this tax, as salt is a bare necessity As I have explained in my note if the tax is simply raised to balance the budget of the Government, I do not approve

Q—Is it not an indirect tax?

A.—I quite appreciate that this is a tax which applies to everybody, but the weight of it falls on the poorer people more than on the richer people My idea to tax tobacco is that it might serve as an alternative when it is *necessary to increase the tax*

Q—Don't you think that it will fall only on the grower?

A—It should not In the last few years the prices of tobacco have gone up so that the ordinary tobacco which used to be purchased for one anna is now sold for four annas a seer If they can stand that, I suppose a 5 per cent tax upon it would not matter much

The President *Q*—Have you any experience of the output per acre? We have been told that there are enormous variations in this country

A—Variations are bound to occur in this country But I have heard that a very close estimate can easily be made as to the actual amount to be got out of a particular field.

Dr Hyder *Q*—Is it cultivated by all castes or only by the *mali* caste in the United Provinces?

A—*I think it is cultivated by all classes* One class may go in more for it than others

The President *Q*—By whom is the estimate of the produce to be made?

A—By the Patwari; and that will be checked by other officers like the Tahsildar

Q—At what stage would you require tobacco to be taken to the bonded warehouse?

A—It should be taken there in the final stage when it is *ready for sale*

Q—Is it going to be manufactured in the bonded warehouse?

A—No My idea is that it should be handed over to the licensed manufacturers The manufacturer will give all the details as to what quantity he purchased, and it can be easily found out that a particular quantity of dried leaf will produce so much manufactured tobacco.

Q—*But the cultivator dries the crop on his field* How long are you going to allow the cultivator to retain it before he passes it on to the licensed manufacturer?

A.—As soon as the manufacturer is ready to take it, he can do so

The Hon'ble Sardar Jogendra Singh *Q*—In the same condition as it is now marketed?

A.—Yes.

The President *Q*—One suggestion is that in order to secure that the stuff does go to the manufacturer, you should levy an acreage duty on the tobacco; and when it is delivered to the licensed manufacturer at the bonded

warehouse you should refund the acreage duty The acreage duty meanwhile is a guarantee that the stuff has not passed into consumption

A.—But since the cultivator is to be licensed for growing tobacco, if he violates the conditions he can be punished.

Q.—But what hold have you on him? What penalty are you going to impose?

A.—A penalty can be imposed under the license.

Q.—You don't think that the levy of an acreage duty would serve as a check?

A.—No, I do not think so Besides it will also add to the work.

Q.—The cultivator may sell three-fourths of the crop locally and take the rest to the manufacturer

A.—But that would be known to the officers There will be estimates.

Q.—But the patwari may take a little remuneration. Would he not?

A.—But still it is difficult to falsify accounts to such an extent. I think it is better to find out these things by experience

---

20th February 1925.

Lucknow.

PRESENT.

Sir CHARLES TODHUNTER, K C S I, I C S, President

Sir BIJAY CHAND MAHTAB, G C.I E, K C S I, I O M, Maharajadhiraja Bahadur of Burdwan.

Sir PERCY THOMPSON, K B E, C B

The Hon'ble Sardar JOGENDRA SINGH

Dr R. P PARANJPYE

Dr L K HYDER, M L A

Mr. T. GIBB, Excise Commissioner, United Provinces, was examined.

Written memorandum of Mr. Gibb

Q. 1—I am unable to offer an opinion

Q 4—I have no suggestions to make.

Q. 21—It is for the Committee's consideration, I think, whether the excise taxation of this country, though indirect, is wholly voluntary Opium consumption, for example, is not altogether voluntary The medicinal use of the drug is universal In the same way consumption of spirit is dictated largely by custom, witness its use in marriage and religious ceremonies and as a prophylactic against malaria in many tracts During the last influenza epidemic, it was, practically, the only medicine and preventive used The only excise tax which I would place definitely in the voluntary category, is that on hemp drugs though here again consideration ought to be given to the use of *bhang* as a substance with acknowledged medicinal virtues during the hot weather, and the use of *charas* and *ganja* by religious ascetics If it be accepted that the taxation on liquor, opium and hemp drugs is voluntary, it would be necessary, I think, for above reasons, to segregate the revenue derived from voluntary consumption and include it only in estimating the burden upon the taxpayer I am unable to say what the involuntary percentage should be but would suggest 25 per cent as a rough and arbitrary basis

Q 23—This may be true of occidental countries but does not apply to India I am of opinion that, in a country like India in which the subsistence level is so pitiably low, even moderate indulgence in liquor, opium, and drugs constitutes a definite and obvious economic burden Taxation should, therefore, be as high as is compatible with good administration Revenue should be a secondary consideration

Q 49—I would recommend an excise on aerated waters and patent medicines levied by means of an excise stamp and a license fee for sale of tobacco

Q 50—I think the graduated or progressive principle applied to tobacco and spirits would be difficult if not impracticable to apply in practice If it were practicable, I should, for reasons of public health, prefer, in the case of liquor, to see the grading downwards The inferior grades of spirit should be taxed highest The difficulty lies in distinguishing which is a superior and which is an inferior brand except through the price.

Q. 61—The position in this province is peculiar. The province is the seat of orthodox Hinduism which is strongly ranged against indulgence in liquor Moslem opinion is also strongly opposed to it There has also, undoubtedly, been a wide change, in recent years, in the mentality of the

consuming classes towards indulgence in liquor. This change began with the politico-ethical campaign against drink in the beginning of 1921. The campaign synchronised with a heavy increase of excise taxation imposed from 1st April, 1921 This increase affected the spending power of the consuming classes seriously especially as the *post-bellum* deflation was just beginning The result was a decrease of 48 per cent in licit consumption in 1921-22, a large fall in revenue from country spirit, and the outbreak of illicit distillation, in tracts comparatively free from it previously. In 1922-23 consumption fell further by 8 per cent and in 1923 24 it declined by 9 per cent The province possesses large tracts in which the *mahua* tree flourishes and it is the premier sugar-cane growing province In the eastern districts the toddy palm abounds Every district, therefore, possesses natural material for production of illicit spirit. This being so, I am of opinion that any scheme of prohibition would be doomed to failure On the other hand, there can be no question that such public opinion as exists is solidly opposed to the drink traffic and this opinion has gathered force steadily since the events of 1921 Publicists, I gather, do not generally favour a prohibition policy The practical difficulties are generally recognised There is practical unanimity, however, that taxation should be maintained at the high point reached in 1921 22 so that no encouragement should be afforded to indulgence Local option is generally recognised as the next step towards prohibition

Q 62.—While I am opposed to total prohibition, I think that the strong fiscal measures taken against indulgence in drink will, eventually, call for exploration of new sources of revenue The loss to provincial revenues by the action so far taken is roughly 50 lakhs This loss to a population of 45 millions is equivalent to only 1½ annas *per capita* and could best be made good by a capitation tax of 2 annas I think In my reply to question 49 I have suggested two other sources but am unable to say how much they could be relied on to contribute An increase of stamp duties seems to me also a possible source An argument against succession duty lies in enforcement especially in view of the litigation which almost invariably ensues over succession in this country.

Q 63.—I accept most of the statements

Q 64.—I approve generally of the policy being pursued in this province except that it is a little in advance both of the political and administrative genius of the people The chief danger inherent to the policy is that it tends *to drive underground a comparatively trifling social evil, if an exceptionally* moderate consumption of alcohol can be so termed

Q 65.—Taxation on country spirit in the United Provinces is Rs. 8 74 per imperial gallon In 1920-21, it was Rs 6 94 I consider that the latter figure represented the limit of spending power of consumer As stated above, the increase was imposed from 1921-22 I was consulted before the increase was decided on and expressed my opinion against the proposal.

Q 66.—There has been no increase of taxation since 1921 22 In the four years following there has been a steady increase of excise crime.

Q 67.—Yes

Q 68.—I see no particular objection to supplementary duties provided these duties are uniform Obvious complications would ensue if rates were not uniform. Supplementary duties, if adopted, should be imposed by the Customs on first entry and allocated by book transfer to the province of destination of goods, otherwise duties would be difficult to collect.

Q 69.—This is a difficult question which is at present under the consideration of all Local Governments The difficulties of procedure are not insuperable but varying rates of duty, which are, in my opinion, quite unnecessary would seriously complicate procedure for adjustment of revenue

Q 70.—Revenue from *tari* is, certainly, capable of some expansion but difficulties of realisation stand in the way The castes engaged in the trade of tapping and selling the liquor in these provinces are extremely poor and ignorant. They have, in most cases, no settled place of residence or property and, if they fall into arrears with collections, forced realisation is fruitless in most cases. The tree tax is in force in two tahsils of Gorakhpur district as an experimental measure, with fair success To the tree tax is allied a fixed surcharge per tree for right of vend This system entails additional staff but, at the present stage, is the best possible I think. The weakness of the auction system, as stated, lies in difficulty of realisation Since 1921 22, the *tari* revenue has risen from Rs 3 36 to Rs. 5.20 lakhs.

Q. 71.—Rates of *ganja* and *charas* should be uniform in order to lessen smuggling. The case for uniformity in rates of *bhang* is not so strong A low rate is necessary in these provinces owing to the number of districts in which hemp of spontaneous growth occurs

Q 72—Yes

Q. 73—Yes

Q 75—The system of retail vend of country spirit, opium and hemp drugs in these provinces is the graduated surcharge fee system I am of opinion that it is the best possible As the retail price of all three articles is fixed under the system, the question of monopoly does not arise.

Q. 75.—Yes, a greater measure of uniformity is desirable There is a distinct point, however, beyond which this province cannot advance owing to the fact that with every increase of rate by Government, retention of crude opium on an increasing scale results The same difficulty does not arise in provinces where there is no poppy cultivation The comparatively low taxation imposed by most Indian States also constitutes a serious difficulty

Q 76—I would be strongly opposed to employment of salaried persons for retail sale Under the graduated surcharge license fee system, vendors are selected and are practically in the position of commission agents of Government The general adoption of this system in India would, I think, be suitable both from the revenue and administrative standpoints

Q 77—*I would recommend greater concentration of cultivation* The poppy is cultivated at present in 29 districts It should be possible, I think, in view of falling demand, to do away with cultivation in a good many districts and eventually confine cultivation to a more or less compact area, as near the factory as possible, on which the preventive force of the Opium Department could be concentrated to obviously greater effect than at present Steps should also be taken by the Government of India to limit cultivation in Indian States to actual requirements and to induce States to come into line with taxation in British territory The large bulk of smuggled drug comes from the States in Central India

Q 154—The obvious difficulty in the way of the proposal of a basic rate is that Excise is a transferred subject in all provinces except Assam This being the case, excise policies, taxation and procedure vary considerably from province to province and I do not see how under present circumstances this is to be avoided I am strongly in favour of an annual conference of Excise Ministers and Excise Commissioners At this conference rates of duty, excise policy and procedure could be discussed This I think would result in uniformity on all essential matters which are likely to prove a source of embarrassment to one province *vis a vis* another

---

Mr. Gibb gave oral evidence as follows :—

The President Q—You are the Excise Commissioner of the United Provinces?

A—Yes

Q—How long have you been in the Department?

A.—I came out to India from the Home Customs and Excise Department in 1909 as an expert officer for the United Provinces, the Punjab, the North-West Frontier Province and Ajmer Merwara In 1920 I was appointed Deputy Excise Commissioner in the United Provinces and in January 1922 Excise Commissioner

Q—The Excise Report for the year ending March 1923 was written by you?

A.—Yes

Q—The report for the succeeding year was written by Mr Waugh though you were in charge of the department virtually throughout the year?

A.—Yes.

Q—In answer to question No 23, you say that "in a country like India in which the subsistence level is so pitiably low, even moderate indulgence in

'liquor, opium and drugs constitutes a definite and obvious economic burden" You mean the expenditure on these articles?

A.—Yes.

Q.—Is it a burden that ought to be got rid of because it is not good for the people?

A.—Yes, if possible.

Q—In reply to question No. 49, you say "I would recommend an excise on aerated waters and patent medicines levied by means of an excise stamp and a license fee for sale of tobacco." Was there a tax on aerated waters in England?

A—I think so It was a simple stamp duty—a stamp that was pasted over the cork or over the ball

Q—What was the amount collected?

A.—I am afraid I can't remember

Q—You think it practicable to levy a similar tax here?

A—Quite

Q—How would you do it?

A—By a stamp affixed over the mouth of the bottle The Excise Department would see that no unstamped bottle is sold—just as in the case of a box of pills at Home The manufacturer would affix the stamp on the bottle in such a way that it is broken when the bottle is opened

Q—In the case of patent medicines, the medicine will have a name They want to advertise it as somebody's pills and they would not have the same sale if they do not have their name. Is that possible with regard to aerated waters?

A.—I think that aerated waters are more or less a luxury in this country Some people might say that they are a necessity; but to the large majority they are a luxury and as such why should not some duty be levied on them? And the method suggested is the only practical way that I can think of

Q—Can you give us the period when this duty was levied in England and when it was abolished?

A—I do not exactly remember

Dr Paranjpye Q—Have you formed any idea as to how much it will produce?

A—I am afraid I could not But it will be very substantial

Q—At about 3 pies per bottle?

A—Yes, that was what was in my mind

Sir Percy Thompson. Q—Don't you think it would rather tend to fall on the European community?

A—I do not think so.

Dr Paranjpye Q—Don't you think that aerated waters are at present helpful from the point of view of health?

A.—Quite so That is why I said that probably some people might consider them a necessity When I go out to camp I always take soda water with me as a measure of precaution when I am doubtful about the local water supply. If you put a small tax on aerated water I think you can get a considerable amount of revenue

Q.—I suppose you would also tax substitutes—Sparklets for example?

A.—Yes; you will have to do that.

The President. Q—Could you not have the tax on the cylinder of carbonic acid gas?

A.—Yes; very easily. There are only two firms here which manufacture gas and perhaps it would be simpler than the other method.

Q—You propose a license fee for sale of tobacco?

A.—I propose it because tobacco, I understand, is at present taxed through the land revenue. It is subject to the land revenue as an agricultural product.

Dr Paranjpye Q—But how will you be able to fix the fee? How can you find out who deals on a large scale and who on a smaller scale? For instance, we were told in Benares that a shop 25 square feet in area was let at Rs. 300 a month?

A—You can fix the fee on the rental of the shop

Sir Percy Thompson Q—Is it not difficult to do so because it may sell other things as well?

A—Yes, it may be difficult

The President Q—There is a scheme in force in Patiala It is something like the outstill system You sell by auction the monopoly of vend for a given area, you allow cultivation free but you require the cultivator to sell only to a licensed vendor either in his own or some other area I think it yields 12 lakhs a year in Patiala The system is also in force in Travancore Suppose you exempt a certain quantity for domestic consumption In France it is 5 plants

A—I am afraid I would not like to offer a definite opinion about that. But I think it would be extremely unpopular

Q—You have restrictions imposed in the case of *ganja*, opium, etc?

A—It might be done in that way

Q—Another suggestion is that you should levy an acreage duty on the tobacco and all the tobacco should be taken to a warehouse The acreage duty will be refunded when it is deposited in the warehouse Then you take your excise duty on issue from bond.

A—I am afraid I would not like to offer any opinion I have not studied the question

Q—Would you like to take the excising of that in your department?

A—Yes Of anything

Dr Paranjpye Q—But not when it is an acreage duty?

A—No

Dr Hyder Q—Would you tax Indian patent medicines?

A—I think it is very easy to tax them I visited a factory the other day at Muttra the proprietor of which is a very enterprising man He manufactures quite a number of medicines that he sends all over India I went to see the factory because he wanted rectified spirit in connection with the manufacture of his medicines

Q—I do not think you would charge on a prescription

A—Indigenous patent medicines such as malaria and cholera specifics have got their own labels and they are sold in hundreds of thousands of bottles. There will be no difficulty in taxing them

Q—Supposing the prescription is given out and could be prepared by any one and there was one who manufactured the same in bulk, will it come under patent medicines?

A—If a man sells something under a specific name for a specific purpose that is a patent medicine

Q—There are prescriptions in Sanskrit books and if one manufactures medicines on those lines will you charge?

A—It will be difficult to differentiate But if you have got a factory such as the well-known one at St Helens, Lancashire in which a patent pill is made to sell all over the world, it is but right that the pill should pay a small tax? The pills used to cost a shilling and the stamp was 1½d. making total sale price 1/1½d

Sir Percy Thompson Q—Will you insist on the duty even in the case of common medicines?

A—They must publish the formula if they want to escape the liability. Of course they never do that

Dr Hyder Q—In India there is a very large trade in such medicines

A—Yes The factory at Muttra I have referred to makes hundreds of thousands of bottles annually.

Q—There is another one at Lahore

Dr. Paranjpye Q—*Will you include Little's Oriental Balm for instance?*

1

Dr. Hyder. Q—You do not wish to create vested interests That was the reason why the Excise Committee of 1906 condemned the system of auction.

The President —The point of the auction system is that it is not going to allow vested interests to grow up

Dr. Hyder —That is precisely why they came to this cut-throat competition.

Sir Percy Thompson Q—Would it not be possible to combine the two systems, i e., to have an auction with an upset price? If you find more than one person willing to pay that upset price, do it by lot

A.—It could be done, but you are coming down to the question of lot again.

Q—What seems to me to be the evil of the system is, when a man sells a certain quantity he ceases to get the profit.

A.—That is not the case. We have so devised our scales of fees between our biggest and smallest shops that they leave a man, at any rate, a small profit on every gallon he sells and the main object of the system is to discourage the pushing of sales which was one of the chief defects of the auction system.

The President Q—Is not that actually happening in transfers of sales from the shops with large sales to the shops with smaller ones?

A.—No, it is the opposite way about In a few isolated cases small shops have taken issues which have been transferred to the larger shops for sale

Dr. Paranjpye Q—Couldn't they transfer their spirits from one shop to another?

A —We have that in one or two cases If you could devise a system that is proof against all fraud, it would be a good thing We are going to introduce the sale of liquor in sealed bottles in towns

Dr. Hyder Q—For consumption—on or off the premises?

A—Off the premises, this is going to be introduced within the next four or five months

The President. Q—In the Excise Administration Report for the year ending 31st March 1924, the following passage occurs "Smuggling from areas where the scale of license fees is low to areas where the scale is high is known to take place; and those vendors who do not stoop to malpractices are careful that they do not take more spirit than they can issue in a month In some cases they have been found co-operating to eke out each other's stock"

A.—We had two cases like that

Q—It is further stated "these and the other devices alluded to are largely responsible for the decreased yield per gallon of license fees as compared with the auction system"

A—I do not think it is quite right to say that We cannot get the same amount of fees under any system Our fees are derived at present from 700,000 gallons as against a million formerly We cannot possibly by any system get the same revenue as you would from the million

Q—But these practices do take place?

A.—In a few isolated cases.

Q—Again on page 26, the report says "it is quite clear that any applicant of any class for a shop is out for profit, and it cannot be said that the displacement of a licensee *merely* because he is inferior in birth or social standing to some other applicant is justifiable on any ground, moral or otherwise." You consider that any man who goes into the liquor trade is out for profit?

A—I have been for 21 years connected with the trade now and I had come to that sad conclusion many years ago.

Q—Your reply to question No 68 You suggest that supplementary duties should be imposed by the Customs and allocated to provinces. Would not that lead to great complications between provinces?

A.—I do not know how you are going to collect them Suppose you had a firm in Bengal exporting a consignment of spirit from, say, a wholesale vendor to a private consumer in this province and their supplementary duties were different from those duties here

Q.—Is it not undesirable to have any supplementary duties?

A.—I was hurried when I drafted my replies, but I thought that it was a definite proposal that was contemplated.

Q—What is Bombay doing?

A.—They have a supplementary licensing fee.

Q—Don't they ask you to levy a duty on spirit?

A—Their method is this: when they get a consignment of foreign liquor from us, they make the vendor pay the duty in Bombay and pay in addition a fee, I think, of about Re 1-6-0 a gallon which is additional to the duty and which is a licensing fee The Central Provinces are doing the same.

Q.—They make them transport in bond and pay their rate of duty when they get the stuff

A—The peculiar thing in Bombay is that they make the man pay his duty first and then transport in bond

Q—Don't you claim something out of Bombay for charges of supervising the distillery?

A.—Yes, 2 annas a gallon.

Q—You are not counting that?

A.—No

Q—You do not want to impose any further tax over and above the Rs 21-14 0?

A—We are trying to ascertain what the Bombay plan is.

Q—You are actually getting half a lakh of rupees a year out of the Central Provinces on account of these duties

A.—We are getting from the Punjab too A similar situation arose in England at one time and Mr Gladstone settled it by a very simple system. All that he did was to give each wholesale vendor a pass book and the vendor made in it his own entries, at the end of a quarter the Excise officials inspect the book and find out the quantities exported It was a dispute over the distribution of taxation between Ireland and Great Britain.

Sir Percy Thompson. *Q*—It was purely academic and merely for statistical purposes

A—That may be so.

Q—I think it was over a complaint that Ireland was overtaxed.

A.—Yes.

Q—This expedient adopted with regard to liquor has nothing to do with the incidence of taxation.

A.—I have tried to persuade the various provinces to adopt a simple system like that, but the only difficulty about it is that you cannot get any uniformity of procedure

The President. *Q*—How are you going to fix a limit for private possession?

A.—I suggest we should take 2 gallons as the limit and allow it to be free

Q—You would limit it to 2 gallons and charge everybody who had more?

A.—Private possession would not be a very serious item. I think provinces could afford to disregard it Bombay had a regulation at one time that if you went to Bombay in possession of more than a certain quantity of liquor you were liable to be prosecuted. That was broken every day, because the refreshment car passing from Calcutta to Bombay was carrying a larger quantity.

Q—What would you say to handing over the whole of the duty on every thing that pays a duty at the tariff rate to the Imperial Government and get rid of this dispute between provinces?

A.—That would help

Q—You say that the tree-tax is in force in two tahsils of Gorakhpur district and that it has been fairly successful

A—Yes

Q.—You are not going to extend it?

A.—Yes, if I could get the staff

Q—So far as it goes, you are satisfied with it?

A.—I am satisfied that the profits on the tapping of trees in the province are going, not into the hands of the people who are actually doing it, but into the hands of the money-lenders.

Q—One of the difficulties is that the castes engaged in the trade are a poor class.

A—Yes.

Q—In the Central Provinces they found that an enhancement of the price of spirit has led to the spirit vendors going into the toddy business

A—We have had the same experience For instance in Cawnpore, we have just had a lot of Bombay people come up to take shops and they have introduced a new method of tapping

Q—Is not the consumption of *tari* increasing?

A—Very much.

Dr. Hyder *Q*—What are your hours for sale of *tari*?

A.—The same hours as for other articles, except in *tari* districts where you get fresh juice in which case we allow the sale from sunrise

The President *Q*—It is stated in the report that "the Assistant Excise Commissioner, Lucknow, points out that the average alcoholic strength of *tari* is only 6 50"

A—I do not think it is quite right

Q—I think more *bhang* grows in the United Provinces than in the rest of India put together

A.—Yes

Q—Is it cultivated?

A—We have no cultivation We had it in one tahsil in the Farrukhabad district and we abolished it this year

Q—Where does all this wild stuff go to?

A—It is collected and supplied to all districts of the province and exported as well.

Q.—It is gathered about now

A—About the beginning of the hot weather it is cut down, the leaves are taken off and packed

Q—Have you had any tests made as to its strength?

A—I do not know how you are going to collect them. Suppose you had a firm in Bengal exporting a consignment of spirit from, say, a wholesale vendor to a private consumer in this province and their supplementary duties were different from those duties here.

Q.—Is it not undesirable to have any supplementary duties?

A.—I was hurried when I drafted my replies, but I thought that it was a definite proposal that was contemplated

Q—What is Bombay doing?

A.—They have a supplementary licensing fee

Q—Don't they ask you to levy a duty on spirit?

A—Their method is this when they get a consignment of foreign liquor from us, they make the vendor pay the duty in Bombay and pay in addition a fee, I think, of about Re 1-6-0 a gallon which is additional to the duty and which is a licensing fee. The Central Provinces are doing the same.

Q.—They make them transport in bond and pay their rate of duty when they get the stuff

A—The peculiar thing in Bombay is that they make the man pay his duty first and then transport in bond

Q—Don't you claim something out of Bombay for charges of supervising the distillery?

A—Yes, 2 annas a gallon.

Q—You are not counting that?

A.—No.

Q.—You do not want to impose any further tax over and above the Rs. 21-14-0?

A.—We are trying to ascertain what the Bombay plan is

Q—You are actually getting half a lakh of rupees a year out of the Central Provinces on account of these duties

A—We are getting from the Punjab too A similar situation arose in England at one time and Mr Gladstone settled it by a very simple system. All that he did was to give each wholesale vendor a pass book and the vendor made in it his own entries, at the end of a quarter the Excise officials inspect the book and find out the quantities exported It was a dispute over the distribution of taxation between Ireland and Great Britain.

Sir Percy Thompson *Q*—It was purely academic and merely for statistical purposes

A—That may be so

Q—I think it was over a complaint that Ireland was overtaxed.

A.—Yes.

Q—This expedient adopted with regard to liquor has nothing to do with the incidence of taxation

A—I have tried to persuade the various provinces to adopt a simple system like that, but the only difficulty about it is that you cannot get any uniformity of procedure.

The President. *Q*—How are you going to fix a limit for private possession?

A.—I suggest we should take 2 gallons as the limit and allow it to be free.

Q—You would limit it to 2 gallons and charge everybody who had more?

Mr. A. A. WAUGH, I.C.S., Assistant Commissioner of Excise, United Provinces, was next examined and gave oral evidence as follows:—

The President. Q—You were acting as Excise Commissioner for the United Provinces?

A.—Yes

Q.—For how long?

A.—For six months, from April to September 1924

Q—You have had experience as a District Officer?

A.—I was a District Officer for three years before that

Q—In your Excise Administration Report for the year ending 31st March 1924, you state that "it is hardly surprising that the agriculturist is not prepared to walk ten miles to the shop of some rural monopolist, and back again, to obtain an article which he regards as prohibitive in price"

A.—That is, in some districts, there are shops serving areas of even so much as 100 sq miles.

Q—Do you find that reduction in the number of shops has gone too far or, at any rate, as far as it ought to go?

A.—I think it has gone too far.

Q—What do you mean by "rural monopolist"? Is it your opinion that each shop does represent a monopoly?

A—In the rural areas excise shops are now so few that the vendors are in the position of monopolists

Q.—There is no sort of competition between any shops?

A.—No, not now.

Q—Can you ensure that the rural vendor sells at fixed prices?

A—I do not think so; his shop can only be visited at infrequent intervals.

Q—How often?

A—The travelling allowance of the Excise staff has now been cut down very much Some shops are inspected once a month, some twice a month, and some once in two months

Q.—How many Inspectors are there?

A.—There are about two preventive Inspectors for each district.

Q.—What is the nature of the duties of an Inspector? Does he test the strength of the liquor?

A—Yes He is also supposed to make local enquiries from village headmen, from zamindars, and from village people generally

Q.—Do you find that the feeling in the countryside is on your side or on the side of the illicit producer?

A—The whole countryside is against the Excise Department and in favour of the illicit producer.

Dr. Hyder Q—Does the peasant in the United Provinces drink or only the low class people, for instance, the *Kanjars*?

A.—So many of our cultivators are low caste people

The President Q—You consider that the policy is proceeding too rapidly in advance of slowly-changing social habits? There is a tendency towards temperance, but you cannot force it.

A.—Yes Attempts to enforce compulsory temperance arouse hostility.

Q—Vendors are selected by lot from amongst a number of applicants. When was this process introduced?

A.—In 1923, after the recommendations of the United Provinces Excise Committee of 1921 It is one of the conditions of the surcharge system of license fees

Q—But previously they were actually allowed to be selected by the licensing board without the drawing of lots?

A—Yes, in 1922, in certain municipal areas The Collectors used to make selections for rural areas, but since October 1923, all selections of new licensees by Collectors or licensing boards have to be made by drawing lots, under the *graduated surcharge fee system.*

Q—In the 1923 Report, I find that an appeal was made on a proposal by a licensing board to discharge four respectable licensees, against whom there was no specific complaint, and to appoint near relations of two of the members of the board in their place

A—Very likely.

Q—The system of selection by lot was introduced to do away with that kind of thing?

A.—It was to do away with that. Selection by lot was introduced in October 1923 as a result of experience in 1922

Q—That was really to some extent a confession of inability to find disinterested people by a process of selection without lot?

A—I am afraid it was

Q—You say that among the defects incidental to the new system you find that some vendors, in order to avoid payment of license fees on increased issues at a higher incidence adulterate liquor, or "profiteer" on such issues as they take, or habitually keep insufficient stock.

A.—Yes The last two things are connected together

Sir Percy Thompson Q—*How does keeping insufficient stock help a vendor to make more profit?*

A—Suppose you are the liquor vendor of a rural shop, and that you took 10 gallons of liquor from the bonded warehuse for sale during the month, and that you are bound by license to sell only at the price of Re. 1-8 a bottle. Suppose, also, that the average consumption, or the consumption in any particular month, in your area is not 10 but 15 gallons If you go back to the warehouse for 5 more gallons of liquor, you incur the fatigue of walking, or the expense of a railway journey, and you pay license fees at an increased incidence per gallon on the total stock taken by you during the month from the warehouse, besides possible extra *douceurs* to the staff and contractor's agent at the warehouse. Rather than do this, you say to your customers "I have brought 10 gallons only this month, and will get no more, my price is so much a bottle". Of course, if an Excise Inspector happens to come round, you can charge only the legal fixed price while he is about

Q—Do you mean the vendor sells to another liquor shop or to customers at an illegal rate?

A.—To his customers There are very few shops and the next nearest shop may be 10 or 20 miles away. If the supposed vendor has 10 gallons, and the rate fixed by Government is Rs 1-8 a bottle, he would sell it at Rs 2-8 a bottle, and if the customer resents the illegal price he may have to walk 20 miles to the next shop

Q.—What has the vendor to pay in the shape of license fees?

A—The license fee is assessed on a graduated scale If you take 4 gallons, *let us say* that you have to pay a license fee of Rs 4, *if you take 10 gallons,* you would pay a license fee of Rs. 20, and if you take 20 gallons, you would pay Rs 60. The rate of incidence per gallon goes on increasing with increases in the quantity taken for sale.

The President. Q—You say that there is danger also that the village illicit distiller, who was the avowed enemy of the vendor under the old system, may become his ally under the new system. Have you found any actual cases of that?

A—I haven't I have only heard about it If you put two and two together, you find that it is very likely to happen

Q—Then you say that the auction system yielded to Government what was by no means an unduly low share of the income from sales in days before the article was sold at a price so much above its intrinsic value I do not quite follow this It has been suggested that the auction system is a dishonest system, because it forces the vendor to resort to illicit practices and adulteration. Personally, I am not convinced that the system is dishonest.

A.—In spite of the change from the auction system to the graduated surcharge system of license fees, vendors go on committing malpractices and of the profits which they get thereby, the Government gets no share. Formerly, in bidding license fees for a shop, a bidder allowed for the profits accruing from dilution of liquor.

Q.—Formerly you could cancel his licenses and so on to control the vendor?

A.—Yes.

Q.—You say cases of illicit distillation were formerly more readily brought to light; and you mention about *jagirs*. What are these?

A.—There are some *jagirdars* in the Jalaun district, who are Mutiny grantees They get revenue from license fees (but not from duties) on country liquor sold within their boundaries The *jagirdars* themselves auction their shops They are entitled to license fees from the sale of country spirit in their territory.

Q.—You cannot impose the graduated surcharge system on them?

A.—No.

Q.—The tendency is to give up the consumption of the countryside to them?

A.—Consumption is very much higher in these places than in the neighbouring villages As pointed out by the Divisional Commissioner, the consumption in the *jagirs* in 1923 24 averaged about 2 50 L P gallons per head per annum, while in the adjoining British districts the average was only 0 81 L. P. gallon per head per annum.

Q.—You say that the slight decline in incidence per gallon of duty revenue indicates greater issues to low duty areas and lesser issues to high duty areas The tendency is to stop sales as soon as you begin to incur these heavy license fees

A.—There is such a tendency in rural areas, but not in towns There is also a good deal of illegal transit of liquor from the rural areas to the town (high duty) areas The rural vendors pay much less in duty and fees per gallon as compared with the city vendors, and there are sometimes intimate relations between city and rural vendors There is one scale of license fees for the rural area, and another higher scale for the city area, the latter being very much higher than the former, and there is a difference in duty as well The effect is to encourage smuggling from a rural shop to a city shop

Q.—How does it work?

A.—It is very easy The rural vendor takes, say, 50 gallons more than his normal requirements from the warehouse He smuggles it to the city vendor by arrangement, and gets his friend out of the painful necessity of paying higher duty and higher license fees In city shops where there is large consumption, it is rather difficult to trace this traffic Still, we take steps, and in Lucknow we have stopped a good deal of this smuggling from low duty to high duty areas

Q.—You again say, "there is hardly any district where illicit supplies are not supplementing lawful consumption" Have you any idea what the proportions are? We have been told in the Punjab that more than half the consumption is of illicit liquor Have you come to that point here?

A.—It is not possible to estimate the extent of illicit consumption in detail I can give you a rough estimate if you like I would estimate the number of drinkers in these provinces at 600,000 which I consider to be a very moderate proportion of a total population of 47,000,000 If 600,000 people are considered to purchase each only one bottle of liquor per annum, the total annual consumption would be about 1,225,000 bulk gallons But, last year, our actual *licit* consumption was 682,000 bulk gallons or slightly more than half the estimate Our consumption for the year 1920 21 was 1,590,000 bulk gallons

Q.—You don't think the social movement has sufficiently developed in this province to cause a real decline in the consumption?

A.—Not nearly to the extent that the fall in licit consumption would indicate

Q.—You say "one Assistant Commissioner estimates that, for every case of illicit distillation detected, nine go undetected"?

A.—Yes, that is an estimate given by one Assistant Commissioner and I think the estimate is a safe one.

Q.—We heard it said in the Central Provinces that the ratio is 1 to 50?

A.—It may be so in the Central Provinces

Q.—I notice again that of 658 villages under special enquiry, distillation was believed to be practised in 456 or 69 3 per cent.

A.—The figures given above are higher than would be found in other areas of the Provinces. The officer was touring in a particularly bad area.

Q.—You say again that overcrowding and inconvenience to vendors, consumers, and the non-consuming public alike in the remaining shops are said to be the most notable results of reduction in the number of shops?

A.—This is so It is due to there being too few shops everywhere. Some large country spirit shops have been abolished by licensing authorities, and this is the result of such a policy. It is particularly the case in towns where licensing boards have left the vend of country spirit in the hands of one or two licensees only

Q.—You say that further restrictions on the hours of sale resulted in three cases of assault on vendors for refusing to sell after closing hours?

A.—Yes

Q.—You say the wholesale price of *ganja* is Rs 245 per maund?

A.—Yes, but only in the last two years; I believe it is being reduced this year.

Q.—Is there any preference, in the opinion of the consumer, as between *charas* and *ganja*?

A.—It is very difficult to make any distinction between the two so far as the noxious effects go I think *charas* acts more speedily There may be some difference in the flavour I should think that most hemp drug consumers prefer to smoke the stronger drug

Q.—Do you also like Mr Gibb advocate a Government monopoly of hemp drugs supply?

A.—I think it would be a very good thing

Q.—You say that the system of official retail vend of opium has been abolished What is this system?

A.—Formerly the Treasurer's agents at tahsils were allowed to sell a certain amount of opium at special rates direct to the public. That was supposed to be a concession given to the agents for the trouble of keeping the accounts, etc. But eventually it led to a tremendous lot of smuggling

Q.—Who were these people?

A.—The District Treasurer's agents The United Provinces Government used to (and still does) employ reliable private bankers to keep the accounts, etc, in the District Treasury, and they were give this concession as a sort of subsidy for their clerks working there and keeping the accounts of opium received into and issued from the Treasury

Q.—Then it was not really official vend?

A.—No.

Q.—You say the smuggling of cocaine is increasing very largely?

A.—Yes There have been very large seizures recently

Q.—Do you attribute the expansion of the cocaine habit to the increased restrictions on alcoholic liquors?

A.—I do not think so What I do think is that if you restrict liquor any further, people will turn to the use of hemp drugs. They are more noxious than liquor, yet I am afraid it is chiefly liquor which is objected to by temperance enthusiasts.

Q.—You say that prosecutions under the Police Act for drunkenness have increased from 642 to 732. You say the slight increase in cases this year is furnished largely by Allahabad Municipality. You draw the conclusion that it is due to the activity of the police being spasmodic.

A.—Yes, their energy against drunkenness is somewhat erratic.

Q.—You say "it is quite clear that any applicant of any class for a shop is out for profit," you don't believe there are disinterested vendors?

A.—I have never seen one.

Mr. E. A. H. BLUNT, C.I.E., O.B.E., I.C.S., Financial Secretary to the Government of the United Provinces, was next examined.

Written memorandum of Mr. Blunt.

Q. 1.—When I was Provincial Director of Civil Supplies in the year 1918-19 I had occasion to use the provincial crop statistics for the purpose of framing an estimate of the food supplies available at the time in the province In doing so I was able to test the value of these statistics from a practical point of view and can offer some information that may be of use to the Committee on this subject.

As is pointed out in Annexure A, three factors go to make up the estimates—

(1) The estimate of areas sown.

(2) The estimate of normal crop

(3) The estimate of the crop for the year in terms of the normal crop

(1) The "estimate" of areas sown, being based on accurate district returns which are compiled from the village papers, ought itself to be not an estimate but a return That is not however so, and the fact is due to the cultivator's habit of mixing different crops in the same field In the district return, or *jinsuar*, the areas of mixed crops are shown separately But in drawing up the provincial crop report, the mixed crop areas are adjusted according to certain arbitrary proportions which were fixed by Mr Moreland when Director of Land Records and Agriculture some twenty years ago, for instance the proportion in the case of wheat and barley is half and half, so that an acre under a mixed crop of wheat and barley is shown in the crop report as half an acre of wheat and half an acre of barley The result of this practice is to turn an accurate record into a mere estimate Moreover, I doubt whether these arbitrary proportions are as valid now as they were twenty years ago Had circumstances been normal throughout the period, there might have been no particular reason to doubt them, for agricultural custom in such matters does not easily change But the war had its effect on agricultural custom During the years 1917-19 there were heavy exports of food grains for the use of the field armies The supplies of some grains, notably gram and peas, which were normally produced within the province in sufficient quantities for internal use, ran so short that large imports from other provinces were necessary, whilst in the case of one grain, *bajra*, which though produced in the province is generally exported for consumption in Bombay, the shortage was so serious that at one time it seemed doubtful whether the crop then on the ground would do more than supply sufficient seed for a subsequent crop And gram, peas and *bajra* are all crops which usually form part of mixtures It seems to me very probable that, in an endeavour to return to the normal the proportion of these three crops in the mixtures has increased, and, if so, Mr Moreland's arbitrary adjustments would now be invalid, and the crop area reports of the present time, consequently, more inaccurate than their predecessors

(2) *Estimate of normal crop*—This is based on a series of crop cutting experiments There are various other factors which tend to vitiate the statistics besides those mentioned in Annexure A, paragraph 5 I produce a copy of the statement in which crop experiments are reported That statement gives a good deal of the information necessary to enable the statistical officers to put the right value on his figures, but there is one important omission, namely, the caste of the cultivator It is well known that high class cultivators as a general rule obtain a far smaller yield from a particular field than a low caste cultivator would from the same field If, therefore, the field selected for the experiment chances to belong to a high caste tenant the yield will be relatively below average, if it belongs to a low caste tenant, especially one of the proper cultivating castes such as the Kurmi, Kachhi or the Murao, it will be relatively above the average

(3) *The estimate of the crop for the year in terms of the normal crop* is invariably too low. The reason is correctly stated in the quotation from the

report of the Sugar Committee of 1920, namely, the pessimism of the cultivator and the village official This pessimism, as any settlement officer knows, is very marked No cultivator will ever accept praise of his crops without qualifying it with a "but."

With regard to the general question, I can record a firm conviction that the statistics of crop outturn are invariably too low. Indeed, when I was using them as a basis for my estimate of the food supplies of the province, I was actually advised by the Director of Land Records and Agriculture to make a lump addition of 10 per cent to my figures to cover this error in the statistics. And the general results of the Civil Supplies operations showed that even that margin was insufficient The certificated exports during this period were quite large enough to have produced a rise in prices had the food supplies been really at or near the figure that my estimates indicated: yet I was able, if not to reduce the existing level of prices, at all events to prevent it from rising any further. The absence of any such rise can therefore only be attributed to the fact that the estimates on which I worked were low; and if they were, then the ultimate and the principal cause was the fact that the crop outturn figures which were the basis of my estimate were also too low.

Q 61—The position in the United Provinces is complicated and intensely interesting Educated public opinion has always been strongly in favour of total abstinence, especially from liquor But in the past the attitude of both the Hindu and Moslem communities has generally been tolerant, and though there has been much academic advocacy of temperance, there has never been anything in the nature of a crusade until 1921 In that year the non-co-operative party commenced a vigorous campaign against drink Circumstances were greatly in their favour; prices were high, trade was slack, excise duties had just been increased, and the consuming classes were perforce compelled to restrict their expenditure on luxuries The drinker, subjected both to economic and political pressure, made a virtue of his double necessity, and consumption declined greatly. But, as subsequent events proved, there was also a third force at work. There are many castes in the province which rank low in Hindu society, but, as they become materially prosperous, desire to rise in the social scale Such a caste usually attempts to achieve promotion by establishing a claim to be an offshoot of some high caste—Brahman, Kshattriya, or Vaishya,—and, in the process, abandons such of its habits as are obnoxious to orthodox Hinduism—notably, the re-marriage of widows, and the use of liquor and unclean food (such as pork) It cannot, of course, be supposed that the number of aspirant castes at this particular time was unusually large. but there is no doubt that many caste councils seized their opportunity to make the desired change—and kept to it. The economic and political factors were quite sufficient to produce a temporary reduction of consumption, but they did not last long enough to account for the further fall that took place in two subsequent years and is not arrested, in the case of liquor, even yet; and the *permanence* of this reduction can only be put down to the social factor Doubtless the castes in question, having acquired some measure of social prestige by their self-denial, decided not to forfeit it by a return to their former habits At all events, there is now no doubt that a considerable part of the reduction in consumption is entirely genuine and has come to stay. The rest of the reduction is merely apparent, and points to the substitution of illicit for licit liquor

The consuming classes, therefore, are already on the road to total abstinence, and the question is whether the temperance reformer will allow them to travel that road at their own pace, or endeavour to hurry progress by some measure of prohibition. Personally, I do not believe it There are certain facts which cannot be hid:

(*a*) The province is the most sober in India.

(*b*) The existing policy of Governmen[illegible]
has already done much to rec[illegible]
more These licensing boards [illegible]
licenses than is possessed by ar[illegible]
or any similar authority with [illegible]
Local Option Act in the British Empire.

(*c*) Prohibition is ruinously expensive.

(*d*) The only real abstinence is voluntary abstinence.

The advocates of temperance, to whatever party they may belong, realise these facts, and though they may use all the prohibitionist *clichés* in a public arena, when it comes to practical administration they will confine themselves to urging a further extension and tightening of the present Government policy, and to measures of educative propaganda. They will, in short, urge Government to make total abstinence the goal of their policy, but they will not invite them to reach it by way of total prohibition. Some of them, it is true, have a hankering after local option, though they recognise the difficulty of devising a suitable measure, and know that it has never succeeded where it has been tried, they consider that India is a peculiarly suitable country for a further experiment. Public opinion, however, is by no means unanimous in its advocacy of local option, and probably for every supporter an opponent could be found, even amongst temperance reformers I do not believe, therefore, that the introduction of total prohibition is likely either now or in the near future, though local option is a possibility (It will be interesting to observe the results of the Punjab Local Option Act of 1923 At present I believe that a dozen local bodies have received powers under that Act, but so far have not taken final action)

Q 62—In the United States between 1917 and 1923 the number of excise officials has risen from 5,023 to 21,275, and the expenditure on administration has increased almost six-fold In this province, on the same basis, the increase in expenditure would be 30 lakhs, with a loss of revenue of 77 lakhs. As will appear from the last paragraph of my note on the taxation system, such a sum would strain the available reserve resources of the province to the utmost

(*a*) Dr. Mathai's proposals are a super-tax on land revenue and a provincial surcharge on income tax Both these taxes would fall on the classes that abstain from liquor in any shape or form, and which, through their representatives, would have been instrumental in passing the pre-supposed measure of prohibition. As examples of poetical justice therefore the proposed taxes would be admirable But they seem to me to possess no other advantages On the generally accepted theory that Government is the sole owner of all land, land revenue is *rent* how can there be a *super tax* on a *rent* charge? And on any other theory, the practical difficulty arises—that no Council in this province will ever consent to increase the burden of the rural population and least of all of the landholders As for the provincial surcharge on income-tax twenty *centimes additionels* may be possible in France, but I do not think that the Government of India are in the least likely to permit any province to trespass on the central sphere of taxation to that extent, especially if their object is merely to finance a measure so bad, both financially and administratively, as total prohibition

(*b*) The great merit of the Bombay Excise Committee's report is that it faces the disagreeable fact that local option (or total prohibition) means loss of revenue, and consequently either reduction of expenditure or increase of taxation The suggested taxes, however, may be suitable for Bombay, but they do not suit an up-country province A terminal tax is imposed as a local tax already whilst we have no local fund cess our only "local cess" is the stand-by of the District Boards I am not very clear what is meant by a transit tax but from its name, I fancy that an attempt to impose it would awake the ire of the Financial Railway Commissioner The province has no stock exchange, and consequently no "futures" From the succession duty, if imposed in the United Provinces I should expect to get at most 35 lakhs, from the totalizator duty, half a lakh, and from a tobacco tax five lakhs making 40½ lakhs in all—not half the amount that would be lost by total prohibition

I venture to remind the Committee that when in the Bombay Council a member moved a resolution recommending Government to introduce the local option proposals of their Excise Committee he did not also recommend Government to adopt their taxation proposals But the taxation proposals had their effect They served to bring soaring aspiration down to the level of sordid reality, and an amendment was moved to the resolution, which consisted of a vague recommendation in favour of the introduction of total prohibition after twenty years—with the implied corollary that fresh taxation be postponed for the same period. This amendment was carried,—and the fact is significant.

Q 63—I do not think that I need discuss these quotations The first and fourth, taken together, make a very fair statement of the present excise policy of the United Provinces Government. The third needs to be corrected by the sixth: the phrase "*large* consumption" really begs the question. Nobody will

(7) *Productivity of the tax*—I am very doubtful whether an income-tax on agricultural incomes would give as large a yield as land revenue. Let us suppose that revenue is assessed as low as 40 per cent on rental, and that rent is as low as 20 per cent of income,—(if I remember right, Mr. Moreland, one of our greatest authorities on such matters, put rent at 20 per cent of gross produce, so that to take rent at 20 per cent of income is a low figure),—and that the income tax rate is as high as one anna per rupee Then on a rental of Rs. 100 we should get a revenue of Rs 40 but on the tenants' total income of Rs. 500 we should only get a tax of Rs 31¼ and on the landlord's income of Rs. 100 we should get Rs 6¼, or a total of Rs 37½ It is possible that an income-tax might tap sources of income ignored by the settlement officer; but on the other hand there must necessarily be an exemption minimum, which would more than cancel this advantage

(8) In short I hold strongly that a tax on agricultural incomes, compared with the present land revenue, would be—

(*a*) less convenient to the tax-payer;

(*b*) less economical in assessment and collections;

(*c*) less productive.

(*c*) *A registration fee on marriages.*—(1) This seems to me both a suitable and productive source of revenue, and some experienced Indian officers whom I have consulted agree

(2) Even amongst the poorest classes, expenditure on marriages is considerable, money is saved or borrowed for the purpose, whilst the thrifty take advantage of a good year or succession of years, when money is plentiful, to arrange the marriages of their children The census figures of 1911 afforded clear proof of this fact A marriage registration fee, therefore, would fall due at a time when there was money available to pay for it, and the expenditure of a few rupees more or less would make no serious difference Nor would it be difficult to collect There is never any difficulty in ascertaining that a marriage is about to take, or has just taken place for the rest, it is only necessary to provide the patwari in villages, and some suitable municipal or collectorate official in towns, with a counterfoil registration form and let him collect the fee at the time of the marriage The counterfoil would make a check of receipts easy: as for a check of the marriages themselves, the first person met could give the inspecting officer accurate information of all marriages in the neighbourhood. Moreover, amongst Hindus, at all events, marriages can only occur at particular seasons and for restricted periods, fixed by the priests as auspicious

Mr Vakil suggests a graduated scale I should consider that the fee must necessarily be fixed at a single rate A marriage is a marriage whoever are the contracting parties, and a raja should not be required to pay more for the registration than a labourer It follows that the rate must be low enough to be no burden on the poorest I should place the figure at anything between Rs 2 and Rs 5

The tax would certainly be productive Marriages are said to average about three per village per year There are 104,728 towns and villages in the United Provinces and allowing for the much larger number that would take place in towns, there would probably be some 400,000 marriages annually The yield on this basis would be anything between eight and twenty lakhs

Mr Vakil suggests that "this should be made a provincial receipt." That is unnecessary: under the Scheduled Taxes Rules it is one already.

I may add that in return for the tax, the tax-payer would gain one considerable advantage in the shape of a conclusive documentary proof of marriage—a thing that must often be required, yet at present is not available.

(*d*) *Tax on motor vehicles*—In 1923-24 the United Provinces Government actually imposed this tax It was not successful. It was difficult to assess, difficult to collect, and thoroughly unpopular

(1) *Assessment*, in England, has at different times been based on petrol consumption and on horse power or weight The former is the fairer method, for it ensures that a car pays no tax whilst it is not running But it has to be collected through the dealers and consequently the system and its rules must be very simple. Unfortunately, in India there are already restrictions connected with the sale and transport of petrol, as such It would be necessary too, to distinguish between petrol used for motor vehicles and petrol used for

other purposes and other engines; and though a Bill imposing taxation on the basis of petrol consumption was actually drawn up in the United Provinces, it had to be abandoned because the system was so complicated that it was impossible to impose the duty of working it on the dealers. Horse power as a basis for taxation also offers many difficulties, and in the end the tax actually enforced was based partly on weight, partly on seating accommodation. Even this system, though relatively simple, presented puzzles from time to time.

(2) *Collection* was difficult, mainly, because it was entrusted to an amateur agency Both the police, and in some places the municipal authorities, keep registers of vehicles . but the former at all events are neither complete nor correct The police were also unable to give much assistance at first, being short-handed, though later they took measures which made it possible to assess many cars that had hitherto escaped The licensing officer, a member of the district staff, could do little by himself The result was that the yield was not as great as it ought to have been

(3) The *unpopularity* of the tax was considerable Owners pointed out that they were already heavily taxed through the duty on petrol, and the customs duty leviable on every vehicle (since none are made in India) whilst in some municipalities there was also a local tax Commercial authorities also regarded it as likely to prejudice the prospects of a young industry—namely, motor transport And when the tax was brought forward for a second year, Council refused to pass it.

The tax was meant to provide money for the reconstruction of roads destroyed by the growth of motor traffic It is obviously fair, therefore, that the motor traffic should be taxed to pay for part of that reconstruction—a very small part in any case But the prejudice against it is strong and in the presence of the duties on petrol and customs, not altogether unfounded I doubt if it will be worth while to reintroduce it for some years to come Nor will it ever be productive unless there is some special agency to assess and collect it

(e) *A tax on other vehicles*—The only other vehicle worth taxing would be the bullock cart, which also causes serious damage to the roads But unless the old turnpikes are to be introduced into India, I can think of no adequate means of taxing it successfully

(f) *A tax on betel leaf and areca nut*—What has been said about tobacco applies to some extent to betel and areca nut It would not be possible to place the tax on the cultivator, and the only means available of raising revenue from this source would be to license manufacturers and vendors They are more numerous than tobacco manufacturers and vendors and the tax would be proportionately more productive But I should imagine that taxing the betel and areca nut in this country would be as unpopular a measure as "taxing the breakfast table" in England

Qs 121 to 136—Many of the questions are inapplicable to this province, and it is more convenient to deal with the suggestion of a tobacco tax on broader lines

(1) *Area sown*—Appendix L gives the figures for 1921 22, which is unfortunate as the area of that year (89,000 acres) was unusually high The figure varies within very wide limits it was 64,000 acres in 1920 21 and 98,000 acres in 1916 17 The average area over a term of years is only 79,000 acres

(2) *Nature of cultivation*—Tobacco is an expensive crop in every way It requires a soil containing an unusual quantity of nitrates and grows best either within or in the immediate vicinity of an inhabited site, preferably an old site. Most of the famous Lucknow tobacco (mentioned, incidentally, in Kipling's "Kim") is grown actually inside the city Soil of that kind is very highly rented I have seen fields growing tobacco in the vicinity of a little country town that were paying Rs 40 to Rs 50 an acre, whilst neighbouring fields not fifty yards away paid Rs 10 to Rs 15 The rent of similar land in Lucknow city would probably run into four or five times the figure Further, such soil is highly prized and in great demand He will be a lucky cultivator who owns or leases as much as half an acre of it But even if he have more he could not afford to put much of it under tobacco Tobacco requires heavy manuring, heavy irrigation, preferably with brackish water, and such special attentions as sprinkling saline earth (*nona matti*) round the roots and over the leaves

The result is that though some tracts (*e g*, Farrukhabad tahsil, certain parganas in Bulandshahr and groups of villages here and there) make something of a speciality of tobacco, a very large part of the crop is grown in small and even tiny plots in the immediate vicinity of villages

(7) *Productivity of the tax.*—I am very doubtful whether an income tax on agricultural incomes would give as large a yield as land revenue Let us suppose that revenue is assessed as low as 40 per cent on rental, and that rent is as low as 20 per cent of income,—(if I remember right, Mr. Moreland, one of our greatest authorities on such matters, put rent at 20 per cent of gross produce, so that to take rent at 20 per cent of income is a low figure),—and that the income tax rate is as high as one anna per rupee Then on a rental of Rs. 100 we should get a revenue of Rs 40 · but on the tenants' total income of Rs. 500 we should only get a tax of Rs 31¼ and on the landlord's income of Rs. 100 we should get Rs 6¼, or a total of Rs 37½. It is possible that an income-tax might tap sources of income ignored by the settlement officer: but on the other hand there must necessarily be an exemption minimum, which would more than cancel this advantage

(8) In short I hold strongly that a tax on agricultural incomes, compared with the present land revenue, would be—

(a) less convenient to the tax-payer;

(b) less economical in assessment and collections,

(c) less productive.

(c) *A registration fee on marriages*—(1) This seems to me both a suitable and productive source of revenue, and some experienced Indian officers whom I have consulted agree.

(2) Even amongst the poorest classes, expenditure on marriages is considerable; money is saved or borrowed for the purpose, whilst the thrifty take advantage of a good year or succession of years, when money is plentiful, to arrange the marriages of their children The census figures of 1911 afforded clear proof of this fact A marriage registration fee, therefore, would fall due at a time when there was money available to pay for it, and the expenditure of a few rupees more or less would make no serious difference. Nor would it be difficult to collect There is never any difficulty in ascertaining that a marriage is about to take, or has just taken place for the rest, it is only necessary to provide the patwari in villages, and some suitable municipal or collectorate official in towns, with a counterfoil registration form and let him collect the fee at the time of the marriage The counterfoil would make a check of receipts easy: as for a check of the marriages themselves, the first person met could give the inspecting officer accurate information of all marriages in the neighbourhood. Moreover, amongst Hindus, at all events, marriages can only occur at particular seasons and for restricted periods, fixed by the priests as auspicious

Mr Vakil suggests a graduated scale I should consider that the fee must necessarily be fixed at a single rate A marriage is a marriage whoever are the contracting parties, and a raja should not be required to pay more for the registration than a labourer It follows that the rate must be low enough to be no burden on the poorest I should place the figure at anything between Rs 2 and Rs. 5

The tax would certainly be productive Marriages are said to average about three per village per year There are 104,728 towns and villages in the United Provinces and allowing for the much larger number that would take place in towns, there would probably be some 400,000 marriages annually. The yield on this basis would be anything between eight and twenty lakhs.

Mr Vakil suggests that "this should be made a provincial receipt" That is unnecessary. under the Scheduled Taxes Rules it is one already

I may add that in return for the tax, the tax-payer would gain one considerable advantage in the shape of a conclusive documentary proof of marriage—a thing that must often be required, yet at present is not available

(d) *Tax on motor vehicles*—In 1923-24 the United Provinces Government actually imposed this tax. It was not successful. It was difficult to assess, difficult to collect, and thoroughly unpopular.

(1) *Assessment*, in England, has at different times been based on petrol consumption and on horse power or weight. The former is the fairer method, for it ensures that a car pays no tax whilst it is not running. But it has to be collected through the dealers and consequently the system and its rules must be very simple Unfortunately, in India there are already restrictions connected with the sale and transport of petrol, as such. It would be necessary too, to distinguish between petrol used for motor vehicles and petrol used for

(1) *An acreage duty on cultivation*—As I have already explained, tobacco only grows in highly rented soils The higher the rents, the higher the land revenue; tobacco cultivation therefore is already taxed through the land revenue. No doubt the acreage duty would fall directly on the tenant, whilst the land revenue falls primarily on the landlord; but in the case of fields of this kind, for which there is keen competition, the landlord can always pass on the revenue to the tenant, whether he can always do so in the case of other fields or not. There is no doubt whatever that an acreage duty would be regarded as double taxation, and also as a breach of the settlement agreement That is the view which this Government have always taken (for the suggestion of an acreage duty is not a new one).

In any case, the duty must necessarily be low simply because the tenant could always abandon tobacco for other crops equally paying. in Farrukhabad, for instance, they easily could and almost certainly would, substitute potatoes for tobacco, were an acreage duty levied on the latter A couple of rupees per acre will be as high a tax as could safely be imposed On an area of 79,000 acres the additional revenue would not be worth the resentment that it would cause.

(2) *A State monopoly of manufacture and sale for both locally grown and imported tobacco*—If this monopoly is to be successful, the following arrangements would appear to be required —

(a) A special staff for the purpose of registering the cultivation, inspecting it and ensuring that no part of the crop is retained but that the whole finds its way into the factory No existing department could undertake the task and, as the cultivation is widely scattered, the staff must be numerous. At the same time it would have nothing to do for half the year.

(b) A factory and a factory staff Judging from the census returns, the staff required would number at least 600 operatives, apart from clerical, menial and supervising establishment

(c) Since Government is to undertake the sale, there will also be a staff of salesmen in some shape or form Judging from the census returns, the number required would be about 17,000

(d) I am not quite sure what precisely is meant by the suggestion that all imported tobacco must be sold to the State Presumably, Government would in some way or other interpose as a middleman in the business and so secure a middleman's profits Whatever the arrangement, it is obvious that yet a further addition to staff would be required, to deal with this middleman's business

In short, Government after paying for the crop and imported tobacco, would still have to make a considerable sum to pay for the expenses of management before any profit would accrue This would inevitably raise the price of all tobaccos very considerably, and cause widespread annoyance amongst all classes of the population alike Apart from that, the entire complicated machinery involved must be set up merely to catch the profit derivable from a crop of coarse tobacco produced from some 79,000 acres annually; which profit, moreover, must be kept as low as possible.

I have made a rough calculation with which I need not trouble the Committee. I need only say that the expenditure would apparently be in the neighbourhood of 1½ crores at least,—on which a return of 5 lakhs, which is as much as could be expected, would give a dividend of 3⅓ per cent I can only describe such a monopoly as baiting with a whale to catch a sprat.

(3) *A company subsidized by the State*—There would be precisely the same objections, in this case, moreover, the profit would be shared between Government and the rest of the shareholders.

(4) *Controlling cultivation and allowing manufacture in bond*—If Government is to make any profit at all out of such an arrangement there must of course be an excise duty payable on the tobacco leaving bond The preventive staff mentioned in connection with the State monopoly would still be necessary, and a certain amount of staff would be required at the bonded warehouses. The duty, for reasons that I have already mentioned, could not be high; and again the profit could not be large. The objections in fact are precisely the same as in the case of the State monopoly except that the whole business would be on a smaler scale.

(5) *Controlling all dealing subsequent to the initial sale by the cultivator to the manufacturer and prohibiting sale except in packages bearing a revenue stamp*—Here again there would be need of preventive staff to ensure that the manufacturer and the vendor carry out the law There is also the practical difficulty that this coarse tobacco is hardly, if ever, sold in any sort of package, and it will be impossible to ensure stamping before it leaves the manufacturer's premises. In practice, the stamp could only be affixed to the piece of paper in which the tobacco would be wrapped before it is handed to the customer. Who is to ensure that the stamp is affixed?

(6) In all the circumstances of the case, the only possible form of tax appears to be *a license fee on manufacturers and vendors*, in the latter case whether they are vendors of foreign or imported tobacco This in the end would probably prove far more productive than any of the complicated methods suggested, whilst it would also have the advantage of not affecting the cultivator and falling entirely on the consumer It would also be a matter of indifference, at all events from the financial point of view, whether the taxation had the effect of substituting imported for locally-grown tobacco or not The fee would have to be very carefully graduated from a low minimum, for many of the manufacturers and vendors are mere village tradesmen, unable to pay a high fee Still, I think that by a system of license fees, it should be possible to obtain a yield not less than 5 lakhs and perhaps much higher It is impossible of course to estimate the number of shops from the census return of workers, for there would often be two or more workers to one shop · but, if we may take the number of shops at 10,000, it would be possible with an average fee of Rs 30 to obtain 3 lakhs from the vendors of locally-grown tobacco alone, apart from the numerous shops that sell imported tobacco.

At best, however, a tobacco duty of any kind would not be the productive tax that it is in other countries

Q. 137—As I have endeavoured to prove in paragraph 10 of my note on the system of taxation, only two of the scheduled taxes assigned to Provincial Governments would be productive One of these is the "tax on non-agricultural land," which as I have laboured to show in that note, is really a tax on buildings The other is "a tax on succession or acquisition by survivorship in a joint family" Both of them present difficulties in respect of their imposition, assessment and collection but on the whole these difficulties would probably be less in the case of the succession duty than of the land tax. In so far as they fall on the agricultural population, moreover, both would be unpopular: but on the whole I think that the unpopularity would be less in the case of the succession duty than of the land tax.

If, therefore, a Provincial Government were in need of new sources of revenue either to replace old sources that had been condemned or to replace or supplement old sources the productivity of which was dwindling, then that Government must necessarily turn their attention first to the succession duty

Q. 138—The graduation of succession duties according to the degree of relationship of the heirs to the testator, as carried out in European countries, has the effect of reducing the burden on the natural heirs, *i e*, on those who possess a natural right to inheritance, and of increasing the burden on those, who in the presence of natural heirs, would have either a lesser, or no right of inheritance And in a system which permits a testator to defeat at will the rights of his natural heirs such differentiation is perfectly legitimate

But such ideas are totally foreign to both Hindu and Muhammadan Law. Under Hindu Law (*Mitakshara*) every member of a coparcenary body is by birth an "heir-apparent" with a natural right to a share in the property of the joint family [illegible] share is fixed, and can be ascertained at any m[illegible] according as new members are born into or di[illegible]ut the right is, *ab initio* and always, a natur[illegible] Law the rights of the heirs arise at the death of the person from whom they inherit they vary according to the composition of the family at the time, and in the case of some heirs (*e g*, the distant kin) will only arise if that composition is of a particular kind But once the right of a kinsman, however distant, *has* arisen, it is also a natural right And under neither law can there be any possibility of defeating that natural right, except by such a trick as the transfer *inter vivos*

Now the succession duties are bound, in any case, to be complicated, and many tax payers will find them incomprehensible They will also be a new

thing in India, and will consequently be unpopular But if their complications are to be increased by refinements which are totally opposed to all indigenous ideas on the subject of inheritance, the unpopularity will become widespread resentment. And, as I have tried to show, graduation according to relationship will be such an innovation

An example will make the meaning clear Let us take the case of a Hindu coparcenary body consisting of father and two sons The "share" of each will be one-third Suppose that one son dies then if the English legacy duty law were adapted to India, the father would pay 1 per cent on his acquired share, the brother 5 per cent on his Suppose, on the other hand, that not a son but the father dies then both sons will pay 1 per cent each To a Hindu all three, from the point of view of inheritance, are equal, as is proved by their "shares" He will certainly not understand why the same man should pay only 1 per cent when he succeeds to one coparcener and 5 per cent when he succeeds to another.

This part of the question could only be fully examined by lawyers and I do not propose to pursue it. I may, however, state the opinion of an experienced Indian officer whom I consulted, and with which I agree :—

(a) It will be impossible to devise a complete graduation by relationship which will suit the three main religions alike (Hindu, Muhammadan and Christian)

(b) Any attempt to devise different schemes of graduation by relationship for different religions will lead to inequality in the incidence of taxation

(c) If there is to be any graduation by relationship it should amount to no more than giving the son a special preference whilst all other relations are put in the same class This would still allow room for the operation of the "motive for accumulation," which is the economic justification for graduation by relationship Anything more complicated will lead to endless litigation

As between graduation according to the size of the estate left, and graduation according to the amount inherited by each individual heir, I should, on general grounds, prefer the latter for two reasons—

(a) that in the absence of anybody corresponding to the executor of a will in respect of Hindu and Muhammadan successions it will be difficult to fix the responsibility for paying the estate duty on any particular person

(b) that, *to some extent, it will lighten the burden of taxation* [For instance, by the provisions of the Madras Bill, section 19 (did they refer to an estate duty), the duty on an estate of 1½ lakhs would be Rs 5 500 but if it were broken up into three successions of Rs 50,000 each the total payment would be only Rs 4,500]

Q 137—At the same time the tax bristles with difficulties, which are germane to a discussion of the three propositions quoted in question 139

(a) *Ex natura*, the tax is bound to press heavily on the heirs at a time of need. The rates need very careful and scientific graduation, especially on the smaller successions, if the burden is not to become intolerable

(b) The tax lends itself to easy evasion by means of the transfer *inter vivos* and as in India the owner of property is well acquainted with that method of disappointing his own heirs, he will not hesitate to use the same method to disappoint Government

(c) The peculiarities of Hindu and Muhammadan law make testamentary dispositions uncommon, so that special arrangements will be necessary to ascertain the value of the property to be taxed.

(d) In practice, the tax would fall mainly on land, buildings, heavy machinery, and other stocks and shares than those payable to bearer, and consequently traceable Experience shows that at a succession movable property is apt to disappear, and as an interval would necessarily elapse before the succession was reported, or the officer concerned could take action, there would be time for such disappearance to occur

(e) Estates transcend provincial boundaries. If, as a result of the tax being imposed in [illegible] an owner is taxed only in respect o[illegible] n avoid taxation by a change of [illegible] tax in respect of his movable p[illegible] cash, jewellery) by a change of [illegible] will become a matter of great difficulty.

These facts suggest that the succession duties should either—

(a) be a central, and not a provincial tax · or at least,

(b) be imposed by the central legislature on behalf of the provinces

The last difficulty is the greatest, and of great importance. It can only be avoided if the same tax be in force over the whole of India, and that can only be achieved by the Central Government

But no province could afford to give up one of its most valuable reserve-taxes without a *quid pro quo*, and were it decided to transfer succession duties to the Central Government as a central source of revenue, it would be necessary to replace them in the provincial system of taxation by some equally productive substitute As an alternative, it has been suggested by Mr Findlay Shirras in his latest book, and before him by the late Finance Member of this province, that the Central Government should take over the tax, but reduce the contribution *pro tanto* But under the Devolution Rules, the benefit of any such reduction must go in the first place to the provinces whose contributions exceed the "ideal" proportions specified in Devolution Rule 18, so that Madras, the Punjab and the United Provinces would at first be the only provinces to benefit from the suggested arrangement, whilst even if the entire contribution were abolished, they would benefit to a far greater extent than other provinces. They would, in effect, be receiving not only the proceeds of their own succession duties but also a large share of the succession duties of other provinces as well. and I can scarcely believe that Bengal and Bombay would agree to an arrangement by which they would actually be taxing themselves for the benefit of other provinces Moreover, the province is entitled both to receive the benefit of the tax and also to be relieved of the contribution

It seems improbable, even impossible, that all provinces should agree to the imposition of the tax at one and the same time and at the same rates Consequer[illegible] secured, it is essential that these duties sh[illegible] Moreover, no local legislature is likely [illegible]gislature might There appears, however, [illegible] which the Central Government's share in [illegible]ing an all-India Act on behalf of the provinces They have done it before, in pre-reform days (the Court-fees and Stamp Acts are obvious instances), and there seems nothing to prevent their doing it again in this case So long as the Central Government devise the necessary legislation and the central legislature impose it, the provinces can be trusted to collect and appropriate it.

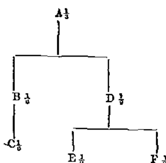
This discussion can be summed up thus—

(a) If there is not to be widespread evasion by changes of residence or of the location of movable property, the tax must apply to the whole of India, and the duty rates must be the same all over India

(b) For practical reasons, the tax should be imposed by the Central Government: but it can be collected by and should certainly be assigned to the Provincial Governments It follows therefore that, for purely practical reasons, I accept the three propositions quoted in question 139 as being valid in the special circumstances of India They appear equally valid as theoretical propositions: but in the presence of practical considerations, that is not an aspect of the matter that I need discuss

Q. 141—The main difficulty arising out of the joint family system is connected with the presence of infant coparceners "The application of such a duty in the cases of the deaths of infants, who have by the mere fact of birth acquired an interest in a joint estate, dying soon after their birth will not only affect the susceptibilities of the community but will involve hardship by reason of the possible frequent levy of the duty" (Report of Madras Death Duties Committee, paragraph 6: *cf.* Findlay Shirras' Science of Public Finance,

pages 311—313) The difficulty is a real one, but it is necessary to understand its nature clearly. Let us suppose that the family is as in the marginal tree.



If E were to die the only result on the shares would be to increase those of D and F to 1/6th each. *Primâ facie*, therefore, it would seem as if a levy from D and F on their "inheritance" of 1/18th each would cover the case But as the family is *ex hypothesi* undivided, D and F have nothing of their own wherewith to pay it, and the duty will actually be paid out of the joint family funds In other words the death of any coparcener means a payment of duty falling on the entire joint family, whether every member of it benefits by that survivorship or not To obviate this, the Madras Committee suggested levying a tax only when the head of the family died, *i e*, A, and then, as I understand, levying it on the value of the whole joint family's estate, not on A's own share alone They hold that this proposal would place "the Hindu community on a par with other communities in the matter of direct liability to the proposed duty."

On this proposal I offer the following suggestions.—

(1) By "head of the family" the Madras Committee apparently mean the managing member (as does question 141) But the managing member need not be (in fact frequently is not) the senior coparcener In the illustration for instance, it is at least as likely that B would hold the post, as that A would Now if the duty is to be levied only on the death of the managing member, in this case there would be no levy on A's death, but only at B's But quite possibly B, before he died, would divest himself of the post and pass it on to C or D, and so on In fact, matters might easily turn out (and more easily still be arranged) so that the managing member should *never* die, and the duty in consequence never be paid "Head of the family," if this proposal is accepted, must necessarily mean the senior coparcener whoever he may be

(2) The Madras Committee consider that the proposal merely equates the liabilities of the Hindu and other communities On the contrary, it seems to me that it gives them a decided advantage The general principle which they had in mind is that there should only be one payment of duty, on the average, per generation per joint family But in another community there would be one payment per generation per *family* To return to the illustration given above, in another community D, E and F would be separate from B and C and whereas in the joint family there would be a fair chance that in three generations only three payments would be made, in the two corresponding families in another community probably five payments would be made The simple solution, which I have reached after consulting the Indian officer already mentioned, is that the duty should only be levied at the death of coparceners of over a certain age—18 or 20 years That would avoid the difficulties connected with the presence of infant coparceners, whilst the duty would only be payable on the death of persons who, in the absence of the joint family system, would themselves be heads of families In this case, of course, the levy would only be calculated on the share of the deceased and not on the whole estate of the joint family An exception, however should be made where the only male member of the joint family dies at an age under that fixed as the limit for this purpose, and the property goes to some separated relative In such a case the heir would be virtually a stranger, with no natural right to succeed in the joint family at all; and the justification for exempting from duty would not be present

Q 142—Professor Shah's dictum may possibly apply to some estates in the province, but certainly not to many The question of machinery, however, need

not detain us . as I have pointed out in answer to question 145, a suitable machinery is at hand.

Q. 143—I should myself suggest that this statement is much *less* true of India, thanks to the joint family system, than it is of other countries In England, for instance, the demise of the father whilst his sons were still at school would certainly make it difficult to carry on the father's business, and it would be necessary to hire assistance till the sons were old enough to take the business over But if the head of an Indian joint family died there would generally be some other adult member of the family to carry on—a son or a brother.

Q 145—Whether the tax be—

(1) a central tax pure and simple, or

(2) a provincial tax imposed by the central legislature, or

(3) a provincial tax imposed by the provincial legislature,

the appropriate agency for levying it in this province would be the Revenue Department In respect of land, revenue officers already deal with successions, in connection with the proceedings necessary to effect correction of the record of rights in respect both of proprietary titles and heritable tenancies under the revenue law and they should find no difficulty in valuing such estates in connection with these proceedings by means of the village papers, provided that they are supplied with rules for their guidance In respect of other kinds of immovable, and of all kinds of movable property, these same officers were till a few years ago accustomed to handle income tax assessments, and should find no difficulty in adjudicating on declarations of value by the heirs, or testing them either by evidence or by local inspection In respect of details of assessment, appeal, review, collection, etc , I think that the provisions contained in sections 10 to 18, 22 to 28, and 30 of the Madras Bill would (*mutatis mutandis*) be generally suitable for this province.

Qs 140 and 146—I should not regard any of the scales given in Appendix P as suitable by reason of their complicated graduations for relationship

I would frame a scale as follows : -

Value of individual inheritance.				*Rate per cent on the value.*
Rs.	5,000	to Rs	10,000	1
„	10,000	„	25,000	2
„	25,000	„	50,000	3
„	50,000	„	75,000	4
„	75,000	„	1,00,000	5
„	1,00,000	„	2,00,000	5 on 1st lakh . 6 on remainder.
„	2,00,000	„	3,00,000	„ „ 7 „
„	3,00,000	„	4,00,000	„ „ 8 „
„	4,00,000	„	5,00,000	„ „ 9 „
		Above Rs.	5,00,000	„ „ 10 „

Provided that—

(1) no succession duty will be leviable where the value of the total estate left by the deceased does not exceed Rs 25,000,

(2) the son succeeding to his father shall receive a rebate of 50 per cent. if his inheritance is less than Rs. 25,000, 33½ per cent if it is between Rs 25,000 and Rs. 1,00,000; and 25 per cent if it is above Rs. 1,00,000.

Note on the system of taxation in the United Provinces by Mr. Blunt.

The object of this note is to describe the existing system of taxation in the United Provinces and to indicate what appear to me to be its principal defects. The views expressed are my personal views, and must not be regarded as committing Government.

2. The revenue of the province falls into three parts—

(a) Revenue derived from sources other than taxation.

(b) Revenue which would probably not be regarded by theorists as the proceeds of taxation, but is certainly so regarded by the persons who pay it.

(c) Revenue derived from taxation proper.

As a preliminary to discussing the system of taxation, therefore, it is necessary to classify revenue into these component parts I have made an attempt to do this in the table appended to this note. The system of classification which I have adopted is generally that of Professor Bastable I have doubtless erred in applying it: but so long as the picture is intelligible it matters relatively little if it is incorrectly drawn The classes are "land revenue," "taxes on acts;" "taxes on commodities," "fees for services;" income derived respectively from "state domain," "state industry," and "state prerogatives," and "miscellaneous." I have classed an item of revenue as a "fee for service" where the revenue is not sufficient to pay for the service.

3. The figures in the table are the gross figures of revenue given in the budget estimates of 1924-25 They are stated in thousands It will be found that the table, together with the explanatory details given below, incidentally answers Nos 10 to 12 of the questionnaire

4 *Explanations of the figures in the table*—(1) *Land revenue*—(The classification of land revenue is a controversial matter. I have not attempted to decide whether it is more properly regarded as a charge in the nature of rent, or a tax on land, or income from "state domain" Its nature is well known, and I have simply classed it as "land revenue.")

(a) *Land revenue proper* consists of—

(1) ordinary revenue (6,92,02), and

(2) *malikana* revenue (2,02)

The latter item represents payments due in certain districts by the subordinate to the superior proprietor, which are collected by Government and passed on to the latter. It is cancelled by a corresponding entry on the expenditure side

(b) *Fees for services*—The most important items are—

(1) *Rates and cesses on land* (2,80)—This item is a rate levied under the law on estates under the Court of Wards to pay for the cost of management incurred in the offices of the Board of Revenue, of Commissioners and District Officers Any net profit that may occur in this item is trivial (and accidental)

(2) *Partition fees* (4 60)—These are fees levied from the parties to pay for the cost of carrying out the partition of estates They exceed the cost of the special partition establishment by 31 per cent; but to the cost of this establishment must also be added a part of the cost of the permanent establishment (assistant collectors and land record staff) employed on partition, and there is certainly no net profit.

(c) *Income from state domain* —Of this a sum of 12,34 represents the revenue of various Government estates and estates under attachment: the rest (1,24) represents the revenue derived from Government quarries and minor mineral products.

(1) *State prerogatives* —These are fines payable under certain circumstances in cases of mutation of names, and are imposed under the law.

(2) *Excise* —The sum of 45 under "state prerogatives" represents fines and forfeitures The nature of the main sum (1,45,61) is well known.

(3) *Stamps* —The item of 47,08 shown under "tax on acts" is the revenue derived from non-judicial stamps · that of 1,34,09 shown under "fees for services" is the revenue derived from judicial stamps. On the ground that the administration of justice should be free of charge, theory may require this item also to be shown as a "tax on acts," and popular opinion would be in agreement with theory but I have shown it here to emphasize the fact that the yield of court-fees is barely sufficient to pay for the cost of the administration of justice It is difficult to estimate the latter with accuracy · the district staff are engaged on other than purely judicial duties, as are also Commissioners and the Board of Revenue. But there can be no doubt that after allowing for a fair proportion of the cost of these establishments the courts generally—revenue, civil and criminal—do not earn in court-fees enough to pay for themselves, whilst revenue and civil courts by themselves barely cover expenses

(4) *Forest* —The greater part of Forest revenue is derived from the sale of produce, and must clearly be regarded as income from a state domain which is managed on a commercial basis There are a few items, however, of a different kind

(1) *Fees for services* —The items are—

(a) "*boom and rafting dues*," which are paid, practically, in return for the policing of the waterways by the Forest department

(b) *Shooting fees* —In theory these fees are devoted to game preservation, and consequently are paid to the services rendered by the department in this direction

(c) *Recoveries on account of afforestation* —These are sums paid by private persons to the department for afforestation work carried out in their estates They are of course occasional only

(d) *Traffic fees* —These are fees paid by contractors and others for carriage of their timber and other produce on the forest tramways—in fact, railway freight charges.

(2) *State prerogatives*.—These consist mainly of the confiscated securities of contractors, and as such would possibly be regarded more correctly as an incident in the management of the "domain."

Following the view taken by the department, I have included grazing dues in the main figure (income from domain) They hold that there is no essential difference between a payment made for grazing cattle *in situ* and the payment that would be made for cut grass sold in open market and that the grazing dues are simply one particular method of obtaining a price for their produce They may be regarded as an instance of what Professor Seligman calls a "public price"—*i e*, a payment made for a service sold by Government primarily for the special benefit of the individual but secondarily in the interest of the community.

(5) *Registration* —This is of the nature of a "fee for service." but as the fee exceeds the cost of the service, it has become a tax. (The cost of the Registration Department proper is 4,64.; to this must be added a part of the cost of the establishment of District Judges, who are district registrars, and some other officers, but even so the "fees" exceed the cost of the "service")

(6) *Scheduled taxes* (1,00) —Government proposed to impose a new tax on betting and certain forms of amusement The proposal was subsequently dropped.

but the figure is interesting as showing how small would be the yield of such a tax in any but a presidency province.

(7) *Subsidized companies.*—This represents Government's share of the profits of the Shahdara-Saharanpur Light Railway, which they receive in return for having provided land free of cost.

(8) *Irrigation.*—This is a commercial department, and in the circumstances I have classified it as a "state industry." Though in theory the charges for water bear some relation to the value of the water to the purchaser, and are so calculated as to bring in a fair commercial profit, the rates are well below the figure that the cultivator could pay, and indeed would be willing to pay, since any alternative method of irrigation would cost him far more. According to Professor Seligman's classification, irrigation revenue clearly constitutes a public price. At the same time it is popularly regarded as a tax.

(9) *Interest.*—This represents the interest—

(a) paid by local bodies, landholders, cultivators and others on loans taken from Government;

(b) paid by the Government of India on the surplus of United Provinces Development Loan.

(10) *Administration of justice*—(1) *Fees for services.*—This consists of—

(a) Court-fees realised in cash (3,91) which includes fees paid for the execution of decrees, fees paid to process servers and amins, fees for sale of lands and other minor fees, and

(b) all record room receipts and pleadership examination fees (34).

(2) *State prerogatives.*—This consists entirely of receipts from fees, fines and forfeitures recovered in the civil and criminal courts, the sale-proceeds of unclaimed and escheated property, and certain miscellaneous receipts of a similar nature.

(11) *Jails and convict settlements.*—The receipts from jails consist mainly of the sale proceeds of jail manufactures, and are therefore classed as a "state industry." A small sum represents recoveries of various jail charges from Indian States and some miscellaneous items.

(12) *Police*—(1) *Fees for services.*—These consist of fees for the registration of motor-cars and for licensing stage-carriages, contributions paid by the railways for their police, receipts from the public for rewards; cost of police supplied to public departments and private persons together with superannuation receipts on the same account, and paid by the same persons.

(2) *State domain.*—This consists of miscellaneous receipts derived from the sale proceeds of produce in police lines and elsewhere.

(3) *State prerogatives.*—These are various miscellaneous fines.

(13) *Education*—(1) *Fees for services.*—These represent fees in Government colleges and schools and examination fees.

(2) *State industry.*—This represents the sale proceeds of books in the book depôt, and of other manufactures in the workshops at the Civil Engineering College—notably the photo and lithographic department.

(3) *Miscellaneous.*—This consists of contributions from the public, and income from endowments.

(14) *Medical*—(1) *Fees for services.*—These represent the receipts of hospitals and fees for chemical analysis.

(2) *State industry.*—These represent the sale-proceeds of various industries in the lunatic asylums, and of certain medical paraphernalia ("Agar tubes").

(3) *Miscellaneous* represents subscriptions and contributions from private persons and local bodies, and from the Government of India for the training of military medical students.

(15) *Public Health*.—The description is similar to that of similar items under the head "Medical."

(16) *Agriculture*—(1) *Fees for services*.—These consist of veterinary receipts and the fees of the agricultural college and school. The former sum, amounting to 1,12, represents payments made by local bodies for Government veterinary inspectors deputed to their service

(2) *State industry*.—This consists of receipts from public gardens, agricultural farms of all kinds and from the department of agricultural engineering

(17) *Industries*.—The small item under "fees for services" represents fees of technical schools The item of 37, under "state industry" represents the sale-proceeds of the manufactures of the workshops of these schools.

(18) *Miscellaneous departments*.—The item under "fees for services" represents fees for inspection of steam boilers, fees for the examination of mechanics, and miscellaneous fees under various Acts relating to the registration of births, deaths and marriages. The item of 30, under "state industry" represents the estimated receipts from the British Empire Exhibition at Wembley.

(19) *Civil works*.—The receipts under this head consist almost entirely of rents paid for Government buildings.

(20) *Superannuation receipts*.—The item shown as "fees for services" represents the contributions of foreign employers of various kinds on account of the pensions of Government officers lent to them. The item of 7 lakhs under "miscellaneous" represents payments by other Governments of the commuted value of the pensions of their servants who have retired in the United Provinces, and receive their pensions from the latter Government

(21) *Stationery and printing*.—This of course is entirely a "state industry." The receipts represent the sale of law reports, acts, periodical publications and forms, together with the cost of certain work done in the press for local bodies and private persons.

(22) *Miscellaneous*—(1) *Fees for services* (2,52).—Of this 1,38 represents fees for Government audit, and the rest are miscellaneous items such as fees for licences for the vend of food in court compounds, steamer tolls, and other miscellaneous items.

(2) *State domain*.—This represents the sale of stores, materials, Government lands and houses and sundry other receipts from Government lands

(3) *State prerogatives*.—This represents unclaimed deposits.

(4) *Miscellaneous*.—This represents recoveries on account of service payment.

5 As I have already explained, the figures given in the table are the budget estimates of 1924 25, and I have given them as they stood because the Committee should have the actual facts before them. They were abnormal, however, in some respects and for purposes of comparison they should be corrected as follows .—

(1) *Excise*.—The estimate was too high. There has been a large decrease in the yield of this tax in 1921 22, and though there has been some recovery, the normal is not likely in future to exceed 140 lakhs

(2) *Stamps*.—The figure for non-judicial stamps included the yield anticipated from a proposed enhancement of court-fees, which the Council refused A normal figure after excluding the enhancement would be 124 lakhs.

(3) *Scheduled taxes*.—As already mentioned, this tax was withdrawn, and should not be included.

(4) *Irrigation*.—For various reasons, the yield in this year was unusually low. The normal yield may be put at 127 lakhs

6. The figures can now be arranged as follows, in round lakhs :—

—	Amount (lakhs).	Proportion per cent to—	
		Taxation and quasi-taxation	Total revenue.
Taxation proper—			
Land revenue	694	68·2	52 7
Taxes on acts	60	5 9	4 6
Taxes on commodities	140	13 7	10 6
Total, taxation proper	894	87·8	67 9
Revenue popularly regarded as taxation—			
Fees for services (judicial stamps)	124	12 2	9 4
Total, taxation and quasi-taxation	1,018	.	77·3
Fees for services	32	.	2·4
Income from—			
State domain	84		6·4
State industry (irrigation revenue)	127	..	9 6
Other	14	..	1 1
State prerogatives	17	.	1 3
Miscellaneous	25	.	1·9
Total, Non-tax revenue	299		22 7
Total revenue	1,317		.

7. The following conclusions can be drawn from these figures .—

(a) The "non-tax" revenue of the province amounts to 22 7 per cent of the whole Of this—

(i) the yield from "state prerogatives" and "miscellaneous" may be regarded as practically fixed (3 1 per cent),

(ii) the yield from "state domain" and "state industry" varies in response to economic laws A decrease may and often does occur in unfavourable circumstances (10 7 per cent),

(iii) the yield from "fees from services" can be arbitrarily increased, and to that extent the fees resemble taxes: but the nature of the services precludes any great measure of enhancement (2 4 per cent)

(b) taxation and quasi-taxation produces 77 3 per cent of the total revenue Of the total proceeds of this taxation—

(i) land revenue is derived from agriculture (68 2 per cent);

(ii) excise revenue (i e, the tax on commodities) is derived from luxuries in the shape of intoxicants (13 7 per cent);

(iii) the judicial stamp duties are derived from litigation (12 2 per cent);

(iv) the taxes on acts (non-judicial stamp duties and registration) are derived mainly from commerce and industry (5 9 per cent).

8 From a practical point of view, the most important of these conclusions is that which relates to the distribution of taxation between town and country. The rural population, in respect of their means of livelihood alone, contribute, in the shape of land and irrigation revenue, no less than 72 per cent of the total income of the province. but in addition to this, they also contribute a considerable part of the public revenue under other heads It is true that both the judicial and non judicial stamp duties on transactions
agriculturists have, of design, been kept a
taxation paid by this class of the population
and Registration cannot be less than another
payments to total receipts from taxation can
this must also be added the local cess of 10 p
is the only important local tax, and amounts to another 70 lakhs

These figures, of course, do not prove that the rural population contribute either beyond their capacity or more than their fair share of the public revenue; and before the latter proposition were established it would be necessary to allow for the incidence of central taxation, to which they contribute relatively far less than other classes Yet the fact remains that of *provincial* taxation they contribute 80 per cent whilst of local taxation in rural areas they pay well nigh the whole. In the circumstances it is not surprising that the Council, a majority of whose members represent rural interests, are in determined opposition to any attempt to impose any further taxation that will in any serious degree increase the present burden of the agriculturist During the past few years that opposition was manifested in connection with the taxation proposals of the District Boards Act, the enhancement of the irrigation rates and the enhancement of both the court-fee and general stamp duties It is a factor of which Government must always take account when they are considering new measures of taxation it is a factor of which the Committee are invited to take account in examining the nature of the present system of taxation And it is a serious matter, for it has the effect of safeguarding from enhancements of taxation no less than 75 per cent of the total population For our present purpose, it further means that (inclusive of the non-tax revenue which is incapable of any great expansion) no less than 75 4 per cent of the present revenue, namely, land revenue, irrigation revenue and non tax revenue—must be regarded as well nigh fixed, whilst enhancement in respect of another 14 per cent (stamp duties and registration) would only be possible on condition that the entire enhancement fell on that 25 per cent of the population that is not agricultural It is only in respect of excise that the Council (setting moral before material welfare) would agree to any enhancement affecting the cultivator.

9. Yet, quite apart from this consideration, the main defect of the existing system of taxation is its lack of elasticity. I take the main taxes individually.

(1) *Land revenue.*—Land revenue in this province is a charge upon land, which in most districts can only be varied at intervals of not less than thirty years. In most years there will be some addition to the total land revenue demand, which may amount to a lakh or two, but is generally less This constantly recurring increase is due to two facts: first, the settlements of the different districts are not concurrent, but fall in at different dates and in rotation: secondly, when a re-assessment results in a considerable increase of revenue, the enhancement is not imposed all at once but in two or three instalments at intervals

of five years This normal growth is likely to be much retarded in future as a result of modern tendencies to modify the present terms of settlement In any case, however, land revenue is incapable of arbitrary increase or reduction, and as a tax is thoroughly inelastic

(2) *Excise* —The policy of Government is directed towards reduction of consumption, and has achieved considerable success in the past few years, much of which is of a permanent nature There has been, in consequence, a heavy loss of revenue since 1920 21 and though there has been a slight recovery during the current year, there is no hope of any marked increase in the yield of this tax unless the duty is reduced, which would produce increased consumption and consequently is outside the sphere of practical politics. Government are contemplating steps which may succeed in diverting some of the profits of the illicit distiller and the smuggler into their own coffers. Apart from this, however, no increase of revenue is likely, and the tax must be regarded as at best inelastic and even as dwindling

(3) *Court-fees* —The Court-fees Act at present in force in the United Provinces dates back to 1870 Since that date, the purchasing power of money has diminished, the market value of property has increased, and the cost of the
ly, and is still rising, whilst the valuation
ve times the land revenue There is every
s, when additional taxation is necessary.
ve introduced the necessary Bill in three
refused it even a first reading, mainly on
burden of the agriculturist In 1923 24, Government succeeded in passing a more modest measure, specially designed to spare the agriculturist, but in the teeth of vigorous opposition, and for a year only In 1924 25, Council determined to secure the maximum of retrenchment before agreeing to additional taxation, refused to renew the measure of the previous year; with the result that the original Act is still in force, and the justification for enhancement still exists There is no doubt that expansion is possible in this tax The Bill of 1922 23, which proposed enhancements similar to those that had been passed in other provinces was estimated to yield 31 lakhs. The Bill of 1923 24 was estimated to yield 16 lakhs, but actually yielded only 12 lakhs, this reduction was mainly the result of the restriction of its operation to a year, which enabled litigants to avoid the enhancement at the beginning of the period by premature institution of suits, and at the end of it by delaying such institution A permanent measure could produce anything between 15 and 30 lakhs according to circumstances · whilst, as experience has proved, rates of duty could be lowered as easily as they could be raised. This tax is therefore reasonably elastic and also reasonably productive

(4) *Non-judicial stamp duties* —The original Act is almost as old as the Court-fees Act, dating back to 1879 and the reasons which justify enhancement of its duties are also much the same Government in 1923-24 succeeded in passing a measure enhancing them though here again it was found necessary to avoid increasing the burden on the agricultural population, by leaving untouched the duties on all transactions which were common amongst them These enhancements were re-enacted in 1924 25 without serious opposition, and it may be hoped that they have come to stay They produce some 8 lakhs of additional revenue, which could, if necessary, be increased to 15 or 16 lakhs by further enhancements, Reduction of the rates once enhanced could not, perhaps, be so lightly undertaken as a reduction of court-fees for even beneficial changes are apt to upset commerce and industry, for which stability of taxation is a matter of great importance But on the whole the tax is both reasonably elastic and reasonably productive

(5) *Registration* —Registration fees in this province are undoubtedly low— lower, I believe, than in some other provinces There have been some minor enhancements, and there is room for more But only an undesirably large increase of rates would produce any valuable addition to the revenue · for the tax, as its present yield shows, is not highly productive

(6) *Irrigation revenue.*—Any variation in these must obviously be conditioned by economic causes over which Government have no control, viz, the general level of the prices of agricultural produce, and the consequent value of the water to its purchaser. This source of revenue, if regarded as a tax, is therefore peculiarly inelastic And the fact that, as a tax it would fall entirely on the agriculturist practically precludes any enhancement.

10 This completes the survey of existing taxes But in considering the system of taxation, it is necessary also to take account of those taxes which under the Scheduled Taxes Rules, a Provincial Government have the power to impose I take these also individually.

(1) *A tax on non-agricultural land.*—In theory all land whatsoever is liable to land revenue, and in practice all land but land covered with buildings is assessed to it A tax of this kind, therefore, must necessarily fall on land covered with buildings and become almost indistinguishable from a tax on the buildings themselves Such a tax could undoubtedly be very productive According to the last census returns there are over ten million occupied census "houses" in the province, representing probably about 7 million separate buildings, and a very low rate would yield a very large sum The tax also would be capable of easy enhancement or reduction, and would consequently be elastic. None the less the imposition of the tax would present grave difficulties

(a) Since the rate must necessarily be graduated, an elaborate investigation would be an indispensable preliminary to the imposition of the tax, which would probably consist of a survey to ascertain boundaries followed by a valuation The process would be long, costly and difficult

(b) Nine out of the ten million census "houses" in the province are in villages, and the tax would, therefore, fall mainly on the agricultural population. As has already been explained there is little chance that the Council would pass a measure which had the result of increasing the cultivator's burden Moreover, it would be contrary to prevailing custom for the tenant's house is universally regarded as part of his holding, so that, in so far as the incidence of the land revenue falls on the tenant, he would be doubly taxed in respect of his house.

(c) And if the tax were restricted to urban areas, its productivity would be very greatly reduced Not only do the urban houses only number a million, but local bodies are entitled to impose a similar tax, and some have already done so To avoid double taxation, it would be necessary to abolish these local taxes and assign a part of the provincial tax to the local bodies or in the alternative to allow them to take an additional tax in the nature of a *centime additionel.*

(2) *A tax on succession and acquisition by survivorship*—It is unnecessary to examine the potentialities of this tax, as this is done in my answer to questions 137 *et seq* It is only necessary to state certain general conclusions—

(a) that the tax is more suitable for a central than a provincial tax;

(b) that it would weigh heavily on the landed proprietors;

(c) that it presents many practical difficulties both in respect of assessment and collection,

(d) that, though it is reasonably elastic, its productivity in an upcountry province would not be so great as in presidency provinces, because of the absence of large successions.

(3) *Taxes on legal forms of betting, on amusements, and on specified luxuries.*—So far as this province is concerned legal forms of betting and gambling begin and end with the betting ring at race courses, of which there are only two (Lucknow and Meerut) of any importance. Amusements are not numerous: picture palaces and dancing halls are the only forms of amusement that are generally found even in the bigger towns An amusement tax, moreover, would fall mainly on Europeans There are also few luxuries In 1923 24 this Government taxed motor-cars · the tax was both unpopular and unproductive, and by no means easy to collect A tax on tobacco is of small importance in this province (see replies to questions 121 *et seq*) And no other luxury suggests itself—save possibly betel, which, if a suitable tax could be devised, would probably be a far more productive source than either motor-cars or tobacco The yield of the proposed tax on betting and amusements was estimated in 1924 25 at 1 lakh only; the actual yield of the motor tax in 1923-24 was only Rs. 1,86,000. These taxes, therefore, would be unproductive, unequally distributed and unpopular—three very serious faults.

(4) *A tax on advertisements*—Inasmuch as advertisement is still in its infancy in India, it is more important to encourage than to impede it Such a tax would be thoroughly undesirable. and as the only commercial and industrial firms that advertise to any great extent are European, would also be unequally distributed Its productivity too would not be great

(5) (*a*) *Registration fee*—(*b*) *Stamp duty*—As registration and stamps are provincial subjects, enhancement of existing fees and duties is within the power of the Provincial Government, under the Devolution Rules and the registration fees and stamp duties mentioned among the Scheduled Taxes can only be *new* fees and duties There are doubtless documents, at present unregistered and unstamped, which might be made liable to both processes but they cannot be numerous, and such a tax would scarcely be productive

11 The results of this detailed examination can now be summarised The system of taxation of the province comprises eleven taxes of which at present only five are imposed Out of the five existing taxes—

(1) Two—namely, land revenue and excise—are for one reason or another incapable of more than slow and trivial expansion

(2) Three—namely, the judicial and non-judicial stamp duties and registration fees—are capable of considerable expansion. though, in practice, it would always be necessary to regulate any expansion so as not to increase the burden of taxation on the agricultural class

Out of the six taxes in reserve—

(1) Four—namely, the taxes on betting and gambling, amusements, luxuries and advertisements—would be so unproductive that they would not be worth the trouble involved in imposing them, except in times of dire necessity

(2) Two—namely, the tax on non-agricultural land and the succession duties—would be productive, but as they must fall heavily on the agricultural class, they would also be hopelessly unpopular

12 And as a whole, the system of taxation has two serious defects

(1) It is incapable of adequate expansion Of its eight main taxes, three—namely, land and irrigation revenue and excise—are in practice well nigh fixed charges And expansion by means of the other five—namely, the two stamp duties, registration, the land tax, and succession duties—is in practice only possible in so far as no part of it falls on the agricultural class—a restriction which greatly reduces the available scope of expansion

(3) Its two reserve taxes—namely, the land tax and the succession duties—would be difficult to impose and to collect To this extent the system is also uneconomical

13 The position, therefore, is simply this Though the sources of taxation at the disposal of the United Provinces Government may appear to be ample, yet the nature of the system of taxation and especially its distribution are such that the scope for expansion is really very small If all further taxation on the agricultural class is avoided, I should estimate the fullest measure of additional taxation that is possible at 55 lakhs, as follows —

(1) Court-fees, 20 lakhs

(2) Non-judicial stamps, 12 lakhs

(3) Registration, 2 lakhs

(4) Tax on non-agricultural land (urban areas only), 5 lakhs

(5) Succession duties, 10 lakhs

(6) Minor taxes, 6 lakhs

But 55 lakhs is only 4 per cent of the existing revenue and the province, in the words of Lord Meston's Committee, has "large arrears of administrative progress to make up"—arrears much larger than 55 lakhs will cover And even if further taxation were placed on the agricultural class, the figure would only become 125 lakhs or 9 per cent of the existing revenue The plight of the province is parlous There is little help to be found in the existing system of taxation. And unless the Taxation Enquiry Committee can assist the United Provinces, then the province's only hope lies in a remission of the contribution.

[Figures in thousands of rupees]

Head of account	Land revenue.	Taxes on— Acts.	Commodities	Fees for services.	Income from State— Domain.	Industry.	Prerogatives	Miscellaneous.	Total.
Land revenue	6,94,04	...	...	8,01	13,61	...	1,08	12	7,16,86
Excise		...	1,45,61	.	...	..	45	...	1,46,06
Stamps	...	47,08	...	1,34,09	...	...	..	...	1,81,17
Forest	...	..	...	1,43	62,61	...	30	.	64,04
Registration	.	13,25	...	...	...	...	..	...	13,25
Scheduled taxes	..	1,00	.	...	...	...	...	...	1,00
Subsidized companies.	...	...	...	.	...	...	...	1,60	1,60
Irrigation	...	...	...	...	..	1,13,92	..	...	1,13,92
Interest	..	...	...	...	...	...	...	15,49	15,49
Administration of Justice.	.	...	...	4,25	...	...	8,95	...	13,20
Jails and convict settlements	..	...	..	11	..	4,60	...	...	4,71
Police	..	...	...	3,05	44	...	22	...	3,71
Education	...	..	...	7,97	.	1,30	...	27	9,63
Medical	.	...	...	26	..	10	...	30	66
Public Health	..	...	...	38	..	38	...	14	90
Agriculture	..	..	..	1,19	.	3,89	.	...	5,08
Industries	...	..	.	5	...	37	...	..	42
Miscellaneous departments	...	.	...	61	...	30	.	.	91
Civil works	...		.	.	5,50	...	.		5,50
Superannuation receipts.	...	..	..	2,32	...	..	...	7,00	9,32
Stationery and printing.	...	...	...	...	...	3,11	...	...	3,11
Miscellaneous	...	...	..	2,62	2,06	..	6,51	30	11,30
Total	6,94,04	61,33	1,45,61	1,66,13	84,22	1,28,17	17,21	26,22	13,21,93

Mr. Blunt gave oral evidence as follows:—

The President. Q—You are the Financial Secretary to Government. What departments are under you?

A.—*Finance*, Excise, Stamps *and agency subjects such as Income-tax and* Opium.

The President—You have been good enough to send us a complete note and *the Committee is very much obliged to you for it*

Dr. Hyder. Q—Regarding classification of revenue, I take it that you refer to Professor Bastable in this connection, and you have adopted his theory. In that classification, you have classed an item of revenue as a "fee for service" where the revenue is not sufficient to pay for the service.

A.—I think I have said so somewhere I have explained it in my memorandum.

Q—I do not understand what you mean by saying in paragraph 8 on page 428 that "It is only in respect of excise that the Council, setting moral before material welfare, would agree to any enhancement affecting the cultivator"

A.—That is only a mild jest.

The President. *Q*—I think it would help us if you were to refer to the paragraphs which give us the information regarding the treatment of the various proposals for new taxation

A—You mean in the Council?

Q—Yes. You say that in the circumstances it is not surprising that the Council, a majority of whose members represent rural interests, are in determined opposition to any attempt to impose any further taxation that will in any serious degree increase the present burden of the agriculturist I take it that your province has been more unfortunate in respect of taxation matters than any other province?

A—That is so The Acts in question are all mentioned in my memorandum. The first is the District Boards Act Unfortunately I am not well acquainted with its history as I was on leave, but I drew up the original taxation proposals. What we wanted to do was to increase the amount that could be got by cesses At present it is limited to 10 per cent, we wanted to put it at 15 or 20, as a maximum of course In the discussions before the Act came before the Council, it was reduced to an extra 3½ per cent or something like that Then in the Council it was reduced still further I am not quite sure of the exact figure, but I think it is an extra 1½ per cent or so No District Board has yet used its new powers of taxation

Q—Have you not subsidised the District Boards by very large grants?

A—Yes

Q—Does your Finance Department agree to make grants when the Boards don't raise taxation?

A—We have occasionally endeavoured to put forward our point of view but only with a certain amount of success

Q—Don't you use the power which the subsidy gives you?

A—No We have not yet done so

Q—Don't you say that unless you tax to the maximum limit and exhaust all possible sources of taxation, we won't give you the subsidy?

A—We have not yet come to that stage

Q—What was the second proposal for taxation?

A—The enhancement of irrigation rates These rates were enhanced by executive orders in 1922 The enhancement was based on the ground that prices had risen and the rates were not sufficient considering the value of the water to the cultivator We had much discussion on this by means of resolutions in the Council The new rates were in existence for one year and at the end of 1923-24, the Government agreed to reduce the rates, so far as sugar cane was concerned The Government took a figure between the new and the old ones The loss amounted to 5 or 6 lakhs on that one reduction

Dr Hyder *Q*—Does your irrigation work pay well?

A—Well, it depends on the way in which it is calculated If you are going to judge the true commercial value of it, and take interest as well as working expenses into consideration, I think the profit would be about 20 lakhs of rupees net I could give you the exact figures after working them out; but I think it is about 20 lakhs net

Q—Does that include the share of land revenue over these areas?

A.—Yes If you want these figures, I can get them worked out and give them to you

Dr. Paranjpye *Q*—Have you got any new schemes of less productive character in irrigation works?

A—We have the big Sarda canals, two of them, which will water the whole of Oudh. They ought to produce a net surplus, but it is impossible to say whether it will be enough for them to come within the classification of productive I have heard it doubted Besides that we always spend a few lakhs on purely protective works, mainly tanks and reservoirs This is in Bundelkhand

Q—Then even your new schemes of irrigation when complete would allow you to pay all the expenses?

A—You wish to know, I think, whether, when we have completed our irrigation works, the whole system will give us a surplus I should think it will give us an increased surplus, allowing of course for a share of the land revenue.

Dr Hyder Q—The total invested on protective schemes is only a very small portion of the whole?

A—It is a relatively small portion, but it is quite a large figure There is the Ken canal system in Bundelkhand and there is another small canal system in a tract of country further to the east There are also a large number of tanks and reservoirs Canal irrigation is a very valuable asset to Bundelkhand

The President Q—What were the other efforts made to increase the revenue? You have spoken about the District Boards Act and enhancement of water rates

A—I will now take the enhancement of court-fees It came before the Council for the first time in the year 1922-23 and it was thrown out by the Council on that occasion Various arguments were adduced; mainly they objected to any extra taxation on land That was their most serious argument The Bill was again put forward before the Council next year and then too the main objection was that there was already a heavy burden on land On the first occasion they objected chiefly to our attempt to raise the valuation for land from five times the land revenue That was the main objection

The Maharajadhiraja Bahadur of Burdwan Q—What do you mean by raising it from five times the land revenue?

A—If you have a suit connected with land you have to take a value of five times the land revenue for the purpose of calculating the court-fee and we raised it to 15 or so The Council thought that it would be a heavy burden on the agriculturists That was their main reason for throwing out the Bill

Q—Why do you fix it from 15 to 20 times?

A—It was a matter of fact a compromise between what it ought to be and what it was

The President Q—Have you not got anything passed till now?

A—The next year the Bill was altered in such a way that the fees on suits in revenue courts were not enhanced and that the rates remained as they were We did this by inserting a proviso giving a rebate We also left out the question of valuation of land We got that Act for one year. For last year, that is for 1924-25, we tried it again but they would not have it at all The argument was mainly that additional taxation was unnecessary The history of the general Stamp Act was the same, except that it was passed for a second year and is still in existence There again we avoided any enhancements on any documents mainly used by the agricultural population

Q—What about the tax on amusements?

A—That was withdrawn

Q—Stamp and Court fees are lower here than in any other part of India?

A—Yes

Q—About the taxes in detail—you say about the land revenue that the "normal growth is likely to be much retarded in future as a result of modern tendencies to modify the present terms of settlement"?

A—Yes

Dr. Paranjpye. Q—Under land revenue you show an amount of 694 lakhs Is it the total demand or the amount recovered?

A—That is the estimate of the amount to be collected We calculate by deducting an estimate for suspensions and remissions from the demand *plus* arrears We also add and deduct advance collections

Q—Allowing for the arrears and the advance collections, what is the annual demand?

A.—It is something over 7 crores—I can give you the correct figure later on.

The Hon'ble Sardar Jogendra Singh. *Q.*—With regard to land revenue does it operate as a tax in your province?

A.—Would you mind telling me what you mean by tax?

Q.—A definition was given to us yesterday—that is, a payment for which the payer gets no specific benefit.

A.—From that point of view it may be a tax, that is, if you take it in a very broad sense, but it is not so according to the usual view

Q.—How do you define water rate—is it also a tax on agriculture?

A.—Most emphatically not

Q.—Can you define it in any other way?

A.—I would define it as I have already said somewhere in this note, as what Seligman calls "a public price"

Q.—Have you any idea about the State running a commercial undertaking like irrigation and putting an ethical limit to its profits?

A.—The less the State runs commercial undertakings the better. Theoretically there is no reason why there should be any limit to its profits but in practice there always has to be A State cannot run the risk of a charge of profiteering

Q.—With regard to the tobacco tax and succession duty, has any question arisen in the province itself or have you answered the question merely because it has been put?

A.—The tobacco tax is not entirely a new thing It has been considered here at different times for various reasons The succession duty has been considered more recently at a time when Government was concerned to find further sources of revenue and I worked the case out and put it before the Government

Q.—You have said something about the lengthening of the terms of settlement Is it in the light of the notes left by Sir Harcourt Butler?

A.—No

Sir Percy Thompson. *Q.*—You say, that judged by the definition of land revenue as being a compulsory payment from which the tax-payer gets no direct benefit, you call land revenue a tax? Take for instance the grant of ownership rights in malguzari settlements Does he not get those ownership rights subject to payment of land revenue? Does anybody hold on any other terms other than, subject to payment of land revenue?

A.—No

Q.—Is not that land revenue that he pays a payment for the use of a valuable asset?

A.—Yes, assuming that the land belongs to the Government On the theory that the land belongs to the Government, it becomes a mere rent in my opinion

But if you do not accept that theory and merely regard the payment as between an individual and Government it may be called a tax, though I do not subscribe myself to that view Moreover, if it is a tax, it is a bad tax, because it is inelastic and unequally distributed

Q.—Do you say that it is something less than the economic rent?

A.—Yes, most certainly

The President. *Q.*—With regard to excise We were told this morning that you lost about 50 lakhs. There were three causes for that, a genuine movement for temperance, a change in the system and illicit distillation

A.—Illicit distillation is more an effect than a cause The cause is chiefly a considerable rise in duties; in fact the decrease is due both to a temperance movement and to Government policy

Q.—The high duties are made up of the actual duty and the vend duty which takes the shape of a duty and this has the effect of imposing a different rate of duty for different shops?

A.—Yes.

Q.—And the profit of the shop-keeper goes on diminishing until it comes to the vanishing point? In theory that would appear to be so

A.—That is a point which I raised when the proposal to introduce the surcharge system was first put forward. But I was assured that in practice the diminution would stop well short of vanishing point

Q.—Does not that put a premium on illicit practices by the vendor?

A.—It certainly gives him a reason for wishing to indulge in illicit practices.

Q.—Is that compensated for by the difference in the class of licensee or do you think any licensee works for the profit he can get?

A.—From what I hear of the new licensees, they are now a totally different class of person

Q.—Does he still not work for profit?

A.—The theory is that his profit, though smaller, is certain and safe.

Q.—We were told that all sorts of devices are adopted in order to stop sales when you get near the limit of profit, that is, if a man is getting near the stage at which he gets a very small margin of profit on any further supplies he will sell the small quantity for a higher price

A.—I believe it is so

Q.—It has been the experience of every province that when you reduce the shops the mere monopoly would increase the auction fee?

A.—Yes, it would

Dr Hyder Q.—You have a fixed rate of retail price?

A.—Yes

Q.—So the vendor cannot make more money?

A.—But he adulterates his liquor He can make money in several ways

The President. Q.—Have you ever calculated the profits under the auction system? I think that if you take the nominal or fixed retail price and multiply it by the quantity sold and deduct from that the auction fee *plus* the duty on liquor *plus* the contract price, you will find that in about ninety nine cases out of a hundred the result will be a *minus* quantity

A.—I think it quite probable that it would work out that way

Q.—Perhaps the liquor dealer derives his profit from water. None of these calculations leads to a discovery of what his profit is?

A.—No As a matter of fact we had a complaint from Benares that the profit was not large enough I think it may be due to the fact that we have the bottle system there and they cannot adulterate the liquor.

Q.—You do not eliminate all those practices of adulterating the liquor merely by adopting the license system from the auction system?

A.—No. You cannot change human nature—in fact it is obviously an incentive to sell his liquor at as high a price as he can

Q.—About illicit distillation, is it growing very considerably?

A.—Yes, there is a separate note on that

Q.—In the review of the last excise report I find this passage:—

> "The Government desire to further temperance by all legitimate means. If licit consumption alone mattered, they would have succeeded sensationally. But they cannot help knowing that the real decrease is

far smaller than the returns suggest and they fear that it may have been bought at a high price The gains held out by illegal practices are driving people to crime, and the spread of illegal practices is weakening the State's control of intoxicants to a point which may render it impotent to do anything for the cause of temperance Anxiety about these matters has led the Governor acting with his Ministers to call a conference to advise him about them "

A.—Yes

Q.—Can you give us the results of that conference?

A—I could not immediately

Q—Can you tell us whether the general result of the discussion was to confirm the opinion that I have just read out?

A—I think the view taken was that on the figures there was no certainty that illicit distillation had increased as much as was thought, but it was admitted that there was a great deal of it

Q—In the Punjab we were told that even with an increase in the staff they could not control illicit distillation and in the Central Provinces they say that they are reaching the point of breakdown

A.—It has not yet reached that stage here, but it is getting perilously near it.

Q.—When you get to that stage, is it possible to carry on without more staff?

A.—I hope that we may do something by increasing the staff

Q—Another line of attack or another difficulty arises through the very large smuggling of opium, etc

A—Yes There are two kinds of smuggling, one is smuggling through the province, and we seize large quantities from Malwa The smuggling of crude opium has also grown considerably recently in this province Last year the seizures of such opium were more than the amounts of the previous three years taken together It has grown to serious proportions now I believe the Opium Department is going to take up that question and by concentrating cultivation make the problem easier to handle

Q—Have you reduced the number of districts in which opium is cultivated?

A—The cultivation is now going on in as many as 29 districts but I think they are trying to concentrate cultivation

Dr. Paranjpye. Q—Is there competition among the cultivators to get permission to grow opium?

A.—Yes, I believe so

The President Q—What do you say of the suggestion made this morning to establish a *ganja* monopoly also at Ghazipur?

A—That is a new idea Perhaps the same agency can do both But the trouble is that the plant grows spontaneously in many places, and I think it would be very difficult to concentrate it It would mean eradication everywhere else, and it will take a good deal of eradication I have seen it growing almost in hedges

Q—You personally would like to see the court-fees raised?

A—Yes

Q—In present conditions, do they pay for the courts?

A—No, taking civil, revenue and criminal together

Q—Would you count criminal courts?

A.—The court-fees would barely pay for civil and revenue courts.

Q—Have you got village courts?

A.—We have got some panchayat courts.

Q—Do they relieve munsifs of a considerable amount of work?

A—I should not think so That relief is afforded by honorary munsifs, I believe that the panchayat court does not charge court-fees at all but simply takes a small sum, four annas or so per suit, to meet their expenditure.

Q.—I take it that if they were really relieving the munsifs it would be legitimate to debit them to the profit and loss account. I am not sure of the criminal courts

A—That is precisely why I gave the facts both for the three courts together, and for civil and revenue courts by themselves

Q—Would it be legitimate to include private cases and exclude police cases?

A—That might be arguable but it will be impossible to work out the figures. In fact you cannot work out the amount of court-fees for each kind of court without asking each individual court to examine all the cases disposed of to ascertain the court-fees collected

Q—Did you take into account pensions and interest on the cost of Government buildings?

A—I did not take these items; I got proof of what I expected without troubling about that

Q—On the whole they are not paying their way?

A—Yes

Q—In non-judicial stamps you would not have been in the unfortunate position in which you are, if the Government of India could claim central control

A—I quite agree.

Q—Leaving aside the Meston Settlement is it because of the awkward situation of having each province fixing its own stamps?

A—We do not get so much as we should from non-judicial stamps because cheques, promissory notes and so on are very largely being impressed at headquarters in Calcutta or Bombay

Q—As regards transactions in shares between two residents of Cawnpore do they pay stamp duty here or in Calcutta?

A—Probably in Calcutta, because there is nothing approximating to a stock exchange in this province

Q—Have you business concerns managed from Calcutta and Bombay?

A—Yes, and then we lose both on our income-tax and also on our stamps

Q—Have you made any bargain with the other provinces?

A—No But we have increased the number of our own stamping machines

Q—As regards non-judicial stamps have you made any special study of the schedule to say which items ought to be more highly taxed and which should be taxed less?

A—I have not studied it recently, not since two years ago I should say that a good many stamp duties could certainly be raised but not many could reasonably be lowered

Q—From registration you make 13 lakhs?

A.—Yes Registration pays. The department costs about 4¼ lakhs but we have also to allow for the district registrars and therefore I should say the net profit was probably 7 lakhs

Q—Is it legitimate on the ground that the State performs services in addition to the mere service of registration?

A.—By registration of documents Government gives the person a clear proof of title.

Q—Have you considered the question of raising the registration fees?

A—We have not considered the question except once three or four years ago That was merely as a general question and not on individual items.

Q—Was there never any exemption from assessment to land revenue for old village sites?

A—In practice there was In theory all land is supposed to be taxable. The practice is that if land which at the last settlement was agricultural land has been built over, at the next settlement it will be assessed as if it were agricultural for that settlement, but in the succeeding settlement it will not be assessed

Q—That is very illogical?

A.—That is how it stands now in practice

Q—Is there anything that corresponds to the ground rent in Madras?

A—I have never heard of it

Q.—In the Punjab they have got an urban tax

A—Is it a local tax?

Q—What is the procedure adopted in respect of *nazul* lands?

A—In respect of *nazul* lands Government is the landlord Most *nazul* is in municipalities, and what we generally do is to let the municipalities have it and they give us, I believe, a share of the income, about 25 per cent, I think

Q—In the Central Provinces the process is the reverse

A—According to our system, non-agricultural land is mainly in the towns The village sites are not taxed at all In the towns, land would continue to be assessed as agricultural land for one settlement after the construction of the house or building and in the next settlement it becomes non-agricultural land It is the custom If we had to work out a tax on non-agricultural land in a city like Lucknow the work would take a very long time

Q—Don't you think it would be good to assess it?

A—It would be excellent, if possible

Sir Percy Thompson—When you assess the non agricultural land it really becomes a tax

The President Q—Do you think there would be great objection in the case of the non agricultural land?

A—No I do not think so After all, it is like some existing municipal taxes

Q—Will it be a municipal rate?

A.—The municipality will have the first call If you class it as a provincial tax, you will have to allocate it

Sir Percy Thompson Q—When agricultural land is converted into a building site, do you think there will be objection to the increase in rates?

A—I should think there would be no objection to the taxation in respect of its form

The Hon'ble Sardar Jogendra Singh Q—Is not cess paid on land revenue? This will be an additional tax.

A.—The cess goes to the District Board

Q.—How would you utilise this tax?

A.—Mainly for municipal needs

Q.—So it will be a double tax on the house

A.—That would occur if the tax was put on village sites.

The President. *Q*.—It is not correct to say that it is a double tax. You will be paying land revenue on land which was already taxed.

A.—At present if a man erects a big factory outside the municipality he is liable to no tax

Dr Paranjpye *Q*.—On page 420 you say that succession duties should either be a central tax or at least be imposed by the central legislature on behalf of the provinces.

A.—Yes

Q.—Do you think the second alternative would be quite proper? Suppose a man has properties in two provinces, one here worth two lakhs and another in Bihar worth one lakh How is it to be levied, because the total property left by him is three lakhs and the three lakhs would be taxed at a higher rate than the two

A.—The tax can be levied on the whole property and apportioned *pro rata*

Q.—Will you agree to the proposition that each province should tax on its own property and the higher rate should go to the Central Government?

A.—I think the Central Government has nothing to claim.

Q.—You suggest only legacy duty and not an estate duty?

A.—Yes

Q.—Don't you think that there is a theoretical justification for estate duty?

A.—I do not quite see how you are going to compel anybody to pay. Supposing in the case of an ordinary joint family the property is left to two people, one-third to one and two-thirds to the other, how are you going to collect from the different beneficiaries?

Dr Paranjpye.—Get it from the one and ask him to share it with the other.

The President.—I rather think that the Civil Justice Committee has made some recommendations about this.

Q.—You say that this tax should be administered by the Revenue Department and not by the Income-tax Department?

A.—A large part of these successions will relate to land and at the present time every heir has got to come to a revenue court to obtain the substitution of his name in the record-of-rights when a succession or transfer occurs Such cases are being dealt with daily by the assistant collectors and tahsildars. A very large part of all succession cases consequently comes to their notice already.

Dr Paranjpye *Q*.—Is it going to be a central department so far as administration is concerned?

A.—No; we could collect it

Q.—There would be a large number of legal technicalities in administering these duties

A.—I do not think that it is beyond the capacity of our Revenue Department They include Commissioners and the Board of Revenue

Q.—You have discussed the difficulties about the joint family system What do you say to this? If there is one man of the higher rank in order of relationship to others; then the duty should be charged on his death and if a joint family consists of two brothers with the father not living, then the property should be charged on the share of each brother

A.—That is very much the Madras proposition, I think. I should not see any great objection to it except that joint families, in comparison with other families, would get a larger benefit.

Q—When the two brothers remain, the law would practically regard them as separate.

A—In a complicated matter of this kind, the simpler you make the provisions the better.

Q—What is your basis for the exemption limit?

A—The value of the estate I took at Rs. 25,000. A rate of 5 per cent on Rs 25,000 would give an income of Rs 1,250 Rs 2,000 is the income-tax minimum

Q—The succession is practically a windfall to the successor?

A—Yes, from the economic point of view

Q—Don't you think that a minimum economic holding would be a better guide to the exemption limit so far as land is concerned?

A—Yes, as a matter of pure theory I have been taking everything from the practical point of view

Q—You might have a very low rate in the earlier stages, but the only theoretical basis for the exemption would be an economic holding

A—I may say that when I first drafted this table, my limit was put at Rs 5,000

Q—That is exactly what I would contemplate

A—But I was advised that it was much too low

Q—Rs 5,000 will be a reasonable economic holding

A—It gives an income of only Rs 250 Rs 25,000, I may say, is the Madras figure

Q—An estate below Rs 5,000 would be exempt from any succession duty, and estates above would be charged on an ascending scale

A—This table could be altered accordingly

Q—You know, of course, that in England the rate of duty on very large estate is exceedingly high, especially for distant relations

A.—Yes.

The Hon'ble Sardar Jogendra Singh *Q*—Do you think that a death duty is practicable in your province?

A—I think I may say it is the least impracticable of our various taxes

Q—On what grounds?

A—In the first place, I think it will be less difficult to assess, in the second place, it will be less difficult to collect

Q—Would it not fall heavily on landed estates, driving out capital and driving the landholders into the hands of money lenders?

A—It would certainly fall mainly on land rather than on other property, because property is mainly land

Q—It would be effectively shutting out capital

A—Possibly, not necessarily

Q—And in the matter of land it would drive people into the hands of money lenders?

A—That depends on the rates at which you fix the duty

Q—In your province, how many estates go to the Court of Wards for indebtedness?

A—I can't tell you how many go for indebtedness I think we have 140 estates altogether of all kinds

Q—Then you would agree that the result would be that people, not being able to pay a cash death duty, would have to mortgage their estates, taking the practical view?

A—*I do not think it is necessarily so.*

Dr. Paranjpye. Q—Is it not a fact that estates with lakhs of rupees of annual income go to the Court of Wards, because they are badly managed and go to the devil?

A—Yes

Q.—He might as well give the money to Government?

A—As to the devil? Yes.

The Hon'ble Sardar Jogendra Singh Q—Is that the popular view in the province?

A—Probably any new tax will be unpopular

Q—After all, would you impose a tax like that without the consent of the people?

A—You couldn't of course

Dr Paranjpye Q—But there is a demand for increased expenditure in the province?

A—Yes, there is

The Hon'ble Sardar Jogendra Singh Q—No suggestion has been made in the Council that such a duty should be imposed?

A—I do not remember any proposal for such taxation.

Q—In your note you very clearly point out that the burden on land is already heavy Do you think the imposition of an additional burden justified?

A—I should like to make my point clear before this particular line of questioning is pursued When I wrote my note on the succession duty, I discussed it more or less from an academic point of view I admit it is a tremendously difficult thing in practice to put on a tax like that; and I made clear in my original note that I thought it would fall heavily on landholders

Dr Paranjpye Q—Would it be a heavy burden on the land or on the people who hold the land?

A.—On the people who hold the land

Q—Not on the land itself?

A. Not necessarily.

The Hon'ble Sardar Jogendra Singh. Q—Would it fall on the tenant or on the landed proprietor?

A—On both

The President Q—Do I understand you to say that the burden of land tax upon the land is excessive?

A—I carefully refrained from saying that

Q—When you said that an estate would come into the hands of the Court of Wards, you did not mean it would come because of land revenue?

A—No.

Q—Does the Court of Wards manage their estates to make them pay their way?

A.—It even makes them wealthy, if there is any chance of doing so.

Q—If the management of a landholder were as good as that of the Court of Wards, he would have no difficulty whatever in paying his death duty?

A.—No

Dr. Paranjpye. Q—You have just told us that the urban population to a great extent escapes taxation, so far as provincial revenues are concerned at any rate If death duties were levied, they would be levied equally on the urban as well as on the rural population. Moreover, the average size of the property of a man in the city is much greater than the average size of the property of a man in the village.

A.—I dislike arguing on averages, but I should say that there are a large number of the richer people in the cities. The large successions will probably be mainly in the cities

Q—Consequently, if these duties were levied, you would get a far greater amount proportionately from the city people than from the villages?

A.—Yes, proportionately.

Dr Hyler Q—Is not the wealth of the people living in towns derived from their possessions in the country-side

A.—To a certain extent, yes, not entirely After all, there is a professional, industrial and commercial population

Q.—A successful pleader, when he makes money, generally buys lands in a village

A.—Yes

Dr. Paranjpye. Q—We need not waste too much sympathy over absentee landlords when we talk of sympathy with the agriculturists

A—No

The Hon'ble Sardar Jogendra Singh Q—Are you correct in saying that the duty would fall more on the cities than on landed estates?

A—I meant that relatively the urban population would pay more than the rural population with reference to their numbers and with reference to their wealth The higher successions would be paying higher rates than the smaller ones Taking 75 per cent of rural and 25 per cent of urban population, I should expect to get anything from 35 to 40 per cent out of the towns and the remainder out of the country

Sir Percy Thompson Q—On page 419 you say that as between graduation according to the size of the estate left, and graduation according to the amount inherited by each individual heir, you should on general grounds prefer the latter for the main reason that, in the absence of anybody corresponding to the executor of a will, it would be difficult to fix the responsibility for paying the estate duty on any particular person Don't you think that even if you have it graduated according to the size of each succession estate, it would at any rate be desirable to have somebody corresponding to the executor from whom you could always collect the duty?

A—It would simplify the position enormously, if it could be arranged

Q—Do you think there would be any objection to that being provided by law? I remember that up to 1894 landed property passed to the owner and not to the executor Only under the Death Duties Act of 1894 was landed property made subject to a duty, when they found it necessary to require that landed property should pass to the executor Would you object to a similar provision being enacted by law?

A—If it could be done, it would simplify matters altogether

Q—Assuming that all property on death did pass to the executor, would you still prefer to graduate the duty according to the amount inherited by each heir?

A—My second reason would still apply, viz, it will lighten the burden of taxation

Q—It is lightening the burden of taxation at the cost of revenue

A.—I should certainly prefer the estate duty from the mere point of view of revenue.

Q.—Do you realize that in order to raise a given amount of death duties you would have to levy a very much higher duty if it were on the legacies than if you had it on the whole of the estate?

A.—Yes If there was an executor, I think I should be prepared to withdraw my objection

The President Q.—Taxes on legal forms of betting, on amusements and on specified luxuries I think, we have already dealt with betting and amusements. What about your motor-car tax?

Dr. Paranjpye. Q—A new proposal has been made to have a heavy motor tax on tyres.

A—That would have much the same effect as a tax on petrol

Q—It can be more easily collected and would be in exact accordance with mileage.

A—It would mean, I suppose, that tyres which now cost about Rs 100 would cost about Rs 120

Sir Percy Thompson Q—That was proposed in England and a Committee sat on that proposal

A—In England motor owners told me that they much prefer the tax on petrol to that on horse-power.

Q—The difficulty about petrol is the substitute

A—The difficulty out here is that there already are licensing fees and a lot of regulations restricting the dealers I did work out a bill for putting it on petrol, but there were about 50 sections to it, you have to make so many exceptions

The President Q—Do you think it fair for the Government of India to take the excise duty on petrol?

A—It seems to be entirely wrong that petrol should be more expensive in the place where it is produced than it is in England.

Q—May we come to tobacco and betel? I am not sure you recommend a tax on betel Would the same considerations apply?

A—Yes, very much, when it is cultivated, it pays land revenue There are not very many betel plantations in this province, so far as I know.

Q—Your conclusion is that the only possible form of taxation is a license fee on manufacturers and vendors of tobacco

A.—Yes

Dr Paranjpye Q—Why on both? Is it because you would get at the manufacturers by taxing the vendors?

A.—That is true.

The President. Q—It has been suggested to us that you might apply a monopoly system to a limited area, coupling with that a limit of private possession and require that the cultivator should sell his crop over and above the limit of private possession to a licensee or exporter

A.—How is it going to be enforced?

Q—Your monopolist would enforce it to a very great extent?

A.—He would, possibly.

Q—Do they not work it with success in several Indian States?

A.—I would much rather have the straightforward licensing fee

Q—But you must give him some protection against unlicensed sales.

A.—You think that the cultivator himself would sell it illegally?

Q—Unless you had a tremendous preventive force, anybody would sell it?

A.—I am afraid I have not considered this question I shall have to think it out.

Q—It is something like the old distillery system You would give him some measure of control over the cultivation?

A.—It would certainly be a much simpler system from the point of view of Government, because you would not have to worry about vendors. The monopolist would select them

Q—He is informed if there is any traffic going on in breach of his monopoly?

A.—Yes

Q—In case of either sale or possession in excess, you would put the penalties pretty high

A.—The whole thing is rather a small business as far as we are concerned

Dr Paranjpye Q—Would you tax vend of tobacco?

A—How would you arrange for taxing imported tobacco?

Q.—You would have to license them separately?

A—That is my proposal.

Q—But supposing you had a monopolist?

The President—He would be like a country spirit monopolist

A.—And the vendor of imported tobacco like the vendor of foreign liquor

Q—He would have to pay a small vend fee?

A—Yes The monopoly for country tobacco and the licence fee for imported is probably a simple method of doing it

Q—You say the revenue is small matter, I think in Travancore it is seven annas per head of the population

A—On how much tobacco?

Q—Travancore prohibited cultivation altogether I think Patiala State makes about 12 lakhs of rupees a year and the French territory, in a little place like Pondicherry, makes about Rs 60,000

A—I do not know where the money comes from

Q—It is a much more productive tax than it looks

A—Apparently

The President Q—Another alternative that has been suggested is that you should impose an acreage duty, you should require the licensee to cultivate and impose an acreage duty on the tobacco being delivered into the warehouse for export

A—It will have to be a very high acreage tax to make sure that he did deliver It would have to be something very nearly equal to the value of the tobacco

Q—An acreage tax would force him to place the tobacco in bond

A—The trouble is that you would have to put a high temporary tax on many small cultivators I doubt if it will be a suitable method

Q—Of the two, you would prefer the first alternative?

A—I would

Q—Would you apply the same thing to betel?

A—I do not know very much about it I do not know how far it is grown in this province I have seen only a few plantations

Q—There is also a large import of it?

A—You would get your money by putting the tax on the vendor

Q—Would those be very unpopular taxes?

A—I do not think a tax on betel will be very popular

Q—Do you know if anybody would object to it as much as to a salt tax?

A—I do not believe that there is any real objection to the salt tax

Q—Advertisements, you don't recommend any tax?

A.—Not at present at any rate.

Dr. Hyder Q—Do you think these advertisements do any good?

A—I don't advertise myself, but I think it must pay. If it were otherwise, people would not spend so much money on advertisements

The President. Q—Two other taxes on consumption have been suggested to us, one on aerated waters and the other on patent medicines Would you like either of these?

A—I have no objection personally to either of these I do not know what the consumption of patent medicines is.

Q—Also a Government monopoly on explosives has been suggested.

A.—My memory is rather vague about explosives

The Hon'ble Sardar Jogendra Singh Q—You are opposed to any imposition of tax on agricultural income on the ground that it won't bring in the necessary revenue and the other reason may be that it may be breach of faith to impose any tax on agricultural lands which have been so far exempted.

A.—But surely there could be no question of a breach of faith if you merely substitute one tax for another What I say is that it is less convenient, less productive and less economical

Q—I suppose you know that the land tax is very unequal in various districts Do you think it would be better if the land tax were permanently fixed and allowed to reach a certain level and then any income above that brought under the Income Tax Act, the revision of settlement being entirely stopped?

A—You mean permanent settlement *plus* agricultural incomes brought under the Income Tax Act It is a very difficult question and I would like to think about it before I answer

Sir Percy Thompson Q—Instead of taking 50 per cent as you have now, if you take only one anna in the rupee on the income, will it give sufficient revenue?

A—It would give much less. But the principal objection is the practical difficulty At the present moment settlements are at different stages If you shut all settlements down on a given date, some would be thirty years old, some would be twenty years old, and some would be ten years old, and the result would be inequality all round.

The President—I understand he proposes to level up all the older settlements with the results of the settlements made recently, on the basis of a sliding scale of prices

The Hon'ble Sardar Jogendra Singh Q—When the new incomes come, they can be taxed and then assets worked out?

A—Then you will have to carry out all the processes incidental to settlement to discover the additional assets and then put an income tax on them. The trouble about it is that instead of having a settlement every thirty years, you would have to have it about every 5 years

The President. Q—You also propose to have a fee on marriages?

A—Yes This is a proposal which has been made to me by Indian officers; but whenever I mentioned it, I was greeted with derision I should not have been bold enough to put it on paper, if I had not found that both Professor Shah and Mr Vakil also suggested it I don't think there is any objection to levying this fee and some experienced Indian officers whom I have consulted agree with me.

Q—You don't think there will be anything to stir up hatred against Government?

A—Not more than a betel tax, for instance

Dr. Hyder Q—What is your basis for calculating that there are at least three marriages per village every year?

A.—The figure was given to me by an Indian officer.

The President. Q—May we now go on to the division of the proceeds? Professor Seligman has put forward the possible plans—he recommends three

methods of division You will find it in the questionnaire—there are five methods He wants to scrap (1) and (5) and proceed on a combination of (2), (3), and (4)

A.—I would agree to the scrapping of both (1) and (5) No. (5) is the old pre-reform system. No (1) seems upside down to me

Q—Take, for example, income tax Each legislature might vote what rate it likes?

A—Then the central authority would put on one income tax and the local authority might put on a second smaller income tax

Q—It need not be The central might be smaller and the local might be larger. It would depend on the need for adjusting their budgets

A.—Theoretically we have already got Nos (3) and (4) (4) is only in respect of the pie rate on income tax

Q—Now we might run through the taxes one by one Customs must be central Is it not so?

A—Yes

Q—Land revenue—provincial?

A.—Yes.

Q—Now income-tax If you had a perfectly free hand, which of the three systems would you apply?

A—For income-tax I would apply No (2)

Q—Then the difficulty would be to determine who is entitled to income tax arising out of a particular area?

A—Yes Perhaps No (4) would be preferable, on this account You would have to divide the proceeds into three or more parts on some arbitrary plan. For instance, you might have a business working in the United Provinces but with headquarters in Calcutta Income tax would be imposed by the central authority, they would take their share and give Bengal and the United Provinces each a share

Q—Who is to be the authority to make these divisions?

A.—I think it would have to be the central authority

Q—You say you would adopt No (4) Then you will have a uniform rate for the whole of India Would there not be a difficulty when you might get more or less than you want? Suppose the Central Government raises the tax simply because some particular province is hard up

A—Then only one province will be taxed

Q—Not necessarily If you have (4) you must have equal division

A—And then the rest of India would be taxed for the benefit of one province I see the difficulty I think on the whole that (2) is better than anything else though it seems desirable that the tax should be same everywhere

Q—What do you think of stamps? It is again a question whether it ought to be imperial or provincial

A—I think it must be No (4).

Q—What about Excise

A—Personally, I hold most strongly that it ought to be the same all over India

Q—Can you get a uniform rate of Excise duty?

A—What I meant was it must be centrally administered

Q—Could you not have a basic rate?

A—You mean that the Central Government should get the basic rate, and the provinces get whatever addition they chose to make to that rate I think that it will probably be a good method It would enable different provinces to carry out their different policies For instance, if one province only cared about its excise revenue and another desired to restrict consumption, they could do so by adopting different rates of duty I think that a basic rate for the Central Government with additional rates for the provinces would be suitable in this case

Q—Do you think you could do this without interfering with the right of the provinces to enforce temperance?

A.—Certainly, in the way that I have described.

Q—What about tobacco?

A—It varies so much all over India that it is better for it to be a local tax.

Q—Can you impose a central excise duty?

A.—That might not suit all provinces I imagine Madras can make a tremendous amount out of its cultivation and manufacture of tobacco. In this province we have very little cultivation and practically no manufacture And by putting on a central excise duty you may be harming Madras' source of revenue.

Q—So as long as the consumption is outside the province they will not be hurt?

A.—If you had an excise duty, and also gave the provinces power to put a duty on manufacture and cultivation I think the excise duty might be central.

Q—If you have an excise duty you can hardly have another tax as well

A—That's the difficulty And that is why I think it is better to keep it local

Q.—Could one province work its tobacco system to the full if the other provinces are not taxing tobacco?

A—Then I think there will be much smuggling

Q—*There was another suggestion put forward just now, selling by monopoly areas* Do you think it will work?

A—I think it would

Q—Death duties What about succession duties?

A—I have already said in my note that they should be central.

Q—Would you like it to be No (4)?

A—Yes.

Q—May I just call your attention to the last page of the Annexure to the Questionnaire which says "We propose therefore a personal tax which shall be levied consistently upon the principle of taxing everyone at his place of domicile for the support of the Government under which he lives a property tax upon tangible property, levied objectively where such property has its *situs* and without regard to ownership or personal conditions, and finally for such States as desire to tax business, a business tax which shall be levied upon all business carried on within the jurisdiction of the authority levying such tax". This is a finding of the Committee appointed by the National Tax Association. Now you will say the personal tax in this country is the income-tax

A—Yes

Q—Property tax is the municipal house tax?

A.—Yes

Q—Business tax is the municipal profession tax? Which is coupled in Madras with the tax on companies levied up to a maximum of Rs 2,000 based on capital.

A—Yes.

Q—Generally speaking all these principles commend themselves to you. Is it not so?

A.—I think so, on the whole, but the term "personal tax" is rather unfortunate as it might be considered a poll tax The income tax, however, is obviously national, I am not so clear about the property tax.

Q—I mean that the taxes should be provincial.

A—Leaving out the third I should say personal tax should be provincial, and the property tax should be local.

21st February 1925.

Lucknow.

PRESENT:

Sir CHARLES TODHUNTER, K C.S I, I.C S, President

Sir BIJAY CHAND MAHTAB, G C.I E., K C S I, I O M, Maharajadhiraja Bahadur of Burdwan

Sir PERCY THOMPSON, K B E, C B.

The Hon'ble Sardar JOGENDRA SINGH

Dr. R P. PARANJPYE

Dr L K. HYDER, M L A.

Mr. A. W. PIM, C.I.E., I.C.S., Commissioner, Allahabad Division, was examined.

Written memorandum of Mr. Pim.

Q 106.—As a theoretical proposition I agree, but the distinction appears to me to have very little value when applied to Indian conditions, where for example local authorities have no responsibilities for police or the administration of justice

Q 107—I have not got the Schedule Taxes Rules, but would give wide scope for taxation to local bodies so long as they did not involve restrictions on general trade or encroach on Imperial or Provincial fields of taxation It is desirable to encourage initiative in this matter Unsuitable taxes could always be vetoed It does not seem necessary to make the levy of specified taxes imperative Local conditions will do that in any case as regards the main sources of income and the recent attempt in these provinces to enforce direct taxation on small municipalities in place of octroi has not been a success

Q 108—Octroi and—in places which are not large trading centres—terminal tax are unsatisfactory taxes from an economic point of view but under Indian conditions it is impossible to dispense with them Land cess has the drawback of falling only on one class but it also is essential for District Boards so long as the present system of land revenue is retained

Q 109—The criticism does not apply to terminal tax to the same extent, provided that it is only applied in suitable places In places which are large centres of trade terminal taxes can be at low rates and confined to the principal staples on which collections can easily be made by the railway companies and under a simple system of tolls The complications of refunds are also avoided. Applied to cities which are not large centres of trade terminal taxes are as bad as octroi except for avoiding refunds Octroi is liable to be extensively evaded, usually by setting up small markets outside octroi limits of which instances are numerous, and sometimes by transferring trade to neighbouring towns This is apart from evasion by corruption of which there is a good deal Evasion by setting up new markets or by transferring trade is more common in the smaller cities and has occurred, for example, in the Fatehpur and Etawah districts of this division.

It also occurs in cases of terminal taxes imposed under not very favourable conditions.

Q 110—The main reason is the impossibility of imposing and collecting heavy direct taxation in India through local bodies Those reasons are still very strongly operative as recent experience in this province has shown

Q 111—I do not consider that there is any justification for the general maintenance of tolls in any area Tolls for a particular purpose such as paying for a new bridge and for a limited terms of years are justifiable.

Q 112—As regards the land revenue it is essential that it should be levied from the owner under the zamindari system which prevails in this province As regards the cess, which is a percentage on the land revenue, it is collected with the land revenue and the Act allows the zamindar to recover three-fifths of the excess over 5 per cent on the annual value from the occupier In practice he recovers a good deal more from tenants not protected by rights of occupancy.

As regards house and land tax, it seems fair to levy the tax from the owner or superior lessor and under the conditions of Indian cities it would be very difficult to levy it from the occupiers How far the owner is able to recover from the occupiers depends on supply and demand and in most cities of these provinces the owner is able to shift the burden on to the occupier In an expanding city like Cawnpore rents are extortionate.

Q. 113.—As regards land cess there are good reasons for limitation. The landowner pays up to 50 per cent of his receipts in land revenue *plus* 5 per cent. of the annual value (*i e*, 10 per cent of the land revenue) in land cess, and the cess may be up to 6½ per cent of the annual value Land pays therefore its full share both to provincial and local taxation and it is not desirable that any chance majority of city residents in a District Board should be able to increase taxation on land indefinitely.

As regards a tax on lands and houses I see no reason why a limit should be imposed and the local Act does not in fact impose any limit. No local body would venture to put on a really high tax

Q. 114—In the municipalities of this division only Cawnpore and Allahabad have house taxes The limits are for Cawnpore Rs 72 per annum and for Allahabad Rs 36, but the latter is being raised to Rs 48 per annum.

The inclination is to put the limit too low rather than too high, as the poorer classes do not find many genuine advocates in local bodies

Q 115—I doubt that the policy of rating on undeveloped value and of exemption of improvements is practicable under the conditions of Indian cities but I also think that it is a question deserving detailed investigation together with the connected problem of the taxation of unearned increment This is more especially true of expanding cities such as Cawnpore and, to a lesser degree, Lucknow and I consider it a matter of great importance that the possibilities of action on these lines should be investigated.

Q 116—Profession taxes were at one time levied in Cawnpore and have also been levied in some of the smaller municipalities They are not applicable to a large city and have, I think, all—or nearly all—disappeared in the smaller towns though analogous taxes continue in cantonments The professions most easily taxable are precisely those likely to be most strongly represented in municipal boards and they are naturally inclined to try and spread the burden over a wider area either by going back to indirect taxation or in some cases by changing over to a tax on circumstances and property.

Q 117—As said in my [illegible] he distinction is of little use under [illegible] ig may be classed as local or beneficia[illegible] education which are the other pri[illegible] are partly onerous and partly benefic[illegible] has done too much spoonfeeding of [illegible] the benefit of a few cities which should be made to rely on their own resources to a larger extent. As regards municipalities I am particularly opposed to any unconditional contribution in aid of municipal funds. Whatever assistance is given should be for specific purposes connected with education, sanitation or water supply and the grants should be made under definite conditions to be enforced by inspection.

The amount of the subsidy should vary according to the purpose of the grant, the degree in which the work was of more than local importance and the financial condition of the local body. For example large pilgrim centres would deserve special consideration as regards grants for sanitary improvements As a rough general rule grants should never exceed 50 per cent. of the cost of any work and should, as a rule, be much less.

As regards District Boards, conditions are different There is a large number of boards, all expected to reach more or less the same standards in education, sanitation, medical and roads, but possessed through no fault of their own of very varying resources. In their case it is necessary to assist the poorer boards by general grants-in aid so as to make it possible for them to attain a certain minimum standard in the main branches of their administration Any additional grants-in-aid should be for specific purposes and under definite conditions as in the case of municipal boards.

Further as it seems certain that the only practical method of controlling local bodies in the future is by a properly regulated system of grant-in-aid given for specific purposes and subject to inspection and check by the central authority, I consider that grants to District Boards should gradually be made to approximate to this system.

Q 118—As regards education there is such a stimulus, but it extends only to making education general, not to making it good or on sound lines

As regards sanitation and road maintenance, there is no such sufficient local stimulus to secure reasonable efficiency

Q. 160—I consider that such 'benefit' services as water supply should pay for themselves and that a house and land tax should form part of the system of taxation in all large cities, but under North Indian conditions it is entirely impracticable to levy the balance of the necessary income by direct taxation Indirect taxation in the shape of some system of octroi or terminal tax cannot be dispensed with.

An attempt at abolishing indirect taxation in the smaller towns of these provinces was made from 1916 onwards It has failed, as small local bodies will not collect direct taxes, more especially from the influential classes. Even in the large cities, there are usually considerable arrears in water rates and taxes and heavy direct taxes would certainly be impossible to collect through the agency of municipal boards.

Q 161—Theoretically it is not satisfactory as the burden does not fall heaviest on those best able to bear it but in practice there is no alternative under present conditions.

As regards a limit, see my reply to question No 113

Q. 167—I consider it most eminently applicable to conditions in India

Q 171—My experience certainly supports this view but I am afraid that such a measure would be impossible in India of to day No Government and politician would take up such an unpopular measure

It is the generally accepted belief that local bodies in the west are autonomous bodies in all respects and that any suggestions to the contrary are merely underhand ways of trying to maintain the old system here An unprejudiced consideration of the matter is at present impossible The name of Local Government Board is partly responsible, as everyone believes it to be a board of elected politicians

There is nothing that local bodies value so much as their patronage and any matter of this kind, even if a subordinate is concerned, always secures a full meeting There is intense jealousy of any interference in rights of appointment and control and even the mild attempts which have been made to obtain some security of tenure for the Chief Executive Officers of local bodies are resented Any conference of persons connected with local administration is, in these provinces at any rate, anxious to press for relaxation of control and they will always find plenty of leading politicians to back them With occasional outstanding exceptions the members of local bodies have little real feeling of responsibility in these matters as is painfully realized by the Chairmen of boards even by those whose political prominence adds weight to their position.

For example when the Vice-Chairman of a District Board temporarily acting as Chairman recently put the school teachers on duty to canvass for him in his election, no member of the board appears to have protested though some were certainly ashamed of it.

I consider that a proper system of grants in-aid is the only hopeful method of attempting to control local bodies at present and even this will be always liable to be interfered with by irresponsible action in the Legislative Council.

Letter No. 3279-XXII-11, dated the 9th February 1925, from A. W. Pim, Esq., C.I.E., I.C.S., Commissioner, Allahabad Division.

With reference to your letter No. U. P.-318 of the 3rd February 1925, I have the honour to say that my answer to question No. 107 was based mainly on my five years' experience as Local Self-Government Secretary to Government and the information which you require can only be given by the Secretariat. I have asked the present Secretary to Government for the necessary information and shall forward it when received. In this division Fatehpur is a typical instance of an attempt to introduce direct taxation in place of octroi and of the failure of that attempt, resulting in a reversion to octroi.

The reasons for such a reversion were similar in all cases and were as follows —

(1) the want of elasticity of the direct tax and its inability to cover expenditure—this factor was very prominent in the case of Fatehpur which is a poor and decaying town,

(2) the great unpopularity of the direct tax;

(3) the incapacity of boards to make equitable and adequate assessments;

(4) the difficulty of collection.

2 With reference to question No. 109, my answer was partly founded on the numerous cases in the Secretariat in which applications were made for the extension of octroi limits owing to the setting up of small markets just outside them.

As regards more distant transfers of trade, the octroi system is of such old standing in these provinces that it is not possible to measure the effects of its initial imposition, but it certainly seems probable that the existence of octroi has been one factor in the transfer of trade from Fatehpur to Bindki in the Fatehpur district and from Etawah to Bharthana and other small towns in the same district Proximity to Cawnpore has however been another factor in the changes and I do not think that it is possible to measure their separate effects

3 As regards terminal taxes imposed under unfavourable conditions full information on this subject can only be given by the Secretariat and I have asked for papers throwing light on this point The course of events was howeves approximately as follows —

A committee was appointed by Government to investigate the question of the abolition of octroi and it reported in favour of the introduction of terminal taxation in a number of towns.

The question was taken up for those towns, but in the case of some large cities such as Lucknow and Benares it was recognised from the start that the finances of the boards were too precarious to admit of experiments in taxation Elsewhere proposals were framed and in a certain number of cases the change was made, including in this division Etawah and Farrukhabad, the former under favourable conditions, the latter under less favourable Experience soon showed that evasions of terminal tax were possible on a considerable scale, more especially by the use of stations within ordinary carting limits from the municipal area and the impression spread that receipts from terminal tax would be much below those from octroi, an impression which was probably partly founded on the results of unfavourable trade conditions This impression strengthened the opposition to any change and a number of towns, including Allahabad in this division, made representations that they could not afford to change octroi for the new system pointing out in the case of Allahabad that the facilities for evasions of the tax through the use of outside stations made a heavy loss in income probable.

These objections were as a rule accepted and the change was not forced on boards though the evasions could be—and have since to a large extent been—checked by the imposition of special tolls. In the really unfavourable cases, therefore, terminal taxes were not actually imposed as it was recognised that they were not likely to work well

In towns such as Farrukhabad which are not very favourable for such a tax it has nevertheless worked fairly well when evasions had been checked, but it has been necessary to fix rates of tax on some of the staple articles of food which are little less than those prevailing under the octroi system.

Letter No. 3317-XXII-11, dated the 11th February 1925, from A. W. Pim, Esq., C.I.E., I.C.S., Commissioner, Allahabad Division.

In continuation of my letter No 3279/XXII—11 of 9th February 1925, I have the honour to forward statements showing the action taken in these provinces towards substituting direct taxation for octroi

Of thirty-nine towns in which the change was carried into effect, eighteen have reverted or are reverting to indirect taxation in the shape of octroi or terminal tax.

Of the balance of twenty-one much the greater proportion are towns of small importance and four have been reduced to the status of notified areas

The extent of the reversion is less than I had supposed but is nevertheless extensive

STATEMENT 1

A. 1. Number of municipalities in which octroi was abolished and replaced by direct taxation .	39*
2 Number of such municipalities which have since reverted to octroi	9
3 Number of such municipalities which have since introduced terminal tax	2
4 Number of such municipalities from which proposals for octroi or terminal tax are still pending	7
B. Number of municipalities in which the proposal to replace octroi by terminal tax was dropped after draft proposals had been framed by the board .	5

STATEMENT 2

A. 1 Municipalities in which octroi was abolished and replaced by direct taxation—

1. Deoband
2. Roorkee.
3. Muzaffarnagar.
4. Kandhla, Since converted into notified area
5. Kairana.
6. Ghaziabad.
7. Sardhana Since converted into notified area
8. Sikandarabad
9. Sikandra Rao
10. Atrauli
11. Kosi Since converted into notified area.
12. Firozabad
13. Mainpuri.
14. Etah
15. Soron
16. Jalesar.
17. Bijnor.
18. Chandpur
19. Dhampur
20. Nagina.
21. Najibabad.

*Four have since been converted into notified areas.

STATEMENT 2—*contd*

22. Amroha.
23. Sambhal.
24. Visalpur.
25. Fatehpur
26. Lalitpur.
27. Mau.
28. Orai.
29. Kalpi.
30. Kunch.
31. Azamgarh
32. Almora.
33. Sitapur.
34. Khairabad.
35. Sandila.
36. Manpara Since converted into notified area
37. Sultanpur
38. Bela (Partabgarh).
39. Nawabganj (Bara Banki)

A. 2 Municipalities which have since reverted to octroi—

1. Sikandra Rao
2. Firozabad.
3. Soron.
4. Jalesar.
5. Etah.
6. Bijnor.
7. Amroha
8. Fatehpur.
9. Sandila.

A. 3 Municipalities which have since introduced terminal tax—

1. Bela (Partabgarh).
2. Muzaffarnagar.

A. 4. Municipalities from which proposals for octroi of terminal tax are still pending—.

1. Kairana 2. Mainpuri	Octroi.
3. Deoband 4. Roorkee 5. Nagina 6. Bisalpur 7. Tanda	Terminal tax.

B Municipalities in which the proposal to replace octroi by terminal tax was *dropped after draft* proposals had been framed by the board—

1. Shahjahanpur.
2. Allahabad.
3. Jhansi.
4. Lucknow.
5. Fyzabad.

Mr. Pim gave oral evidence as follows :—

The President. *Q.*—You are Commissioner of the Allahabad Division?

A—Yes.

Q—You have been Secretary for Local Self-Government for five years?

A—Yes, some time ago From 1913 to 1918

Q.—You have been asked to give evidence on behalf of the Local Self Government Department

A—I understand so, but this does not mean that I am giving the views of Government

Q—Might we clear the ground by putting you a question as to what the various local taxes are? In the Central Provinces we find that the District Boards—which are called District Councils—practically can levy almost any tax In the Punjab you can levy any tax under the Scheduled Rules In the United Provinces, you find a very large number of taxes levied by the municipality but the District Board can levy only the cess and a tax on circumstances and property

A—Yes There are minor sources of income like ferries, but there are only two taxes for District Boards

Q—Does the Board fix the amount to be collected from a particular area in respect of the circumstances and property tax?

A—It is a new tax and is not yet actually in force in any district The Allahabad Board is considering the matter and it is only in the first stage The rules have still to be framed, but so far as I am aware the tax will not be apportioned in this way

Q—Under the Municipal Act there are 13 different taxes specified I understand that some of them are alternative taxes The first is the tax on the annual value of buildings Can that be levied simultaneously with a tax on circumstances and property?

A—I do not remember any case There is no definite rule forbidding it. Generally speaking, it is only in the smaller places that you have the circumstances and property tax

Q—Would it be legal to tax the same property twice over?

A—The question has never actually come up I do not think a proposal to do so would be sanctioned As far as the law goes, it is not forbidden except as regards imposing both a circumstances and property tax and a general tax on trades and professions

Q—What is the difference between profession tax and the tax on circumstances and property?

A—Profession tax is a tax on specified professions or trades Circumstances and property tax covers much the same ground as income-tax

Q—Profession tax is more restricted in scope?

A—Yes

Q—You have nothing like the Madras profession tax?

A—The Act provides for two such taxes the first on trades and callings deriving special advantages from or imposing special burdens on the municipal services, and the second, a general tax on trades and callings The latter cannot be imposed in addition to a tax on circumstances and property

Q—It is not the same as the Bengal tax on dangerous trades?

A—No

Q.—I have seen a notification imposing a levy on the cloth merchants of Etah

A.—I am not aware of that.

Q.—Brick burners are also taxed Is it an offensive and dangerous trade?

A—Brick burners are taxed because of the damage they do to the roads.

Q—Do the cloth merchants get any special advantage from the municipal administration?

A.—I do not know the conditions in Etah

Dr Hyder *Q*—The assessment on circumstances and property is one rupee per cent. from Rs 101 to Rs. 5,000, and one-eighth of the estimated rental value of the house or shop

A—At present the tax is contemplated in the case of the Allahabad District Board It will simply be on income in the rural areas.

The President *Q*—It is both an income and property tax?

A—Yes

Q—You cannot levy water-rate in anticipation of providing a water-supply.

A—I do not think that has been done The Act only lays down that all receipts must be spent on construction or maintenance of the supply.

Dr Paranjpye *Q*—The municipality has the public funds for general use on objects like water supply Why should it not be allowed to collect the sum in advance?

A—Legally it is possible, in practice I do not think that the tax could be levied long before construction was commenced

Q—What about octroi and terminal taxes?

A—Octroi is collected on goods imported into the locality. It is refunded when the goods are exported from the locality Terminal tax may be levied either on exports or imports It depends on the nature of the things and on convenience

The President *Q*—Municipalities have wider powers of taxation than the Local Government.

A.—Apparently they have in certain directions

Dr. Paranjpye. *Q*—If a municipality wants to levy a tax which is not within the power of the Local Government itself to levy, will it have to take the sanction of the Government of India?

A.—This depends, I think, on when the Act empowering the Board to levy such a tax was passed.

Sir Percy Thompson. *Q*—There was a Committee in 1908 that considered these questions

A—They recommended that in the smaller places octroi should be abolished, and that in the larger places octroi should be replaced by terminal tax coupled with direct taxes of some kind.

Q—What happened as a result of those recommendations? Where they adopted by the Government?

A—They were adopted and the change was made in all or nearly all the places recommended. I have sent in a list of those places.

Q—How do you account for the fact that direct taxation is not levied in the North, whereas in the South the local bodies raise most of their revenue from it?

A.—I imagine it must mainly be a matter of custom Also the remark only applies to the larger towns The smaller town areas and District Boards depend entirely on direct taxation. Even in the larger towns direct taxation gives a considerable proportion of the income

Q—Don't you think that a house tax is a fairer tax than octroi?

A.—It is a fairer tax; but it would be very difficult to collect if levied at other than very low rates

Q—Can the Provincial Government exercise any pressure to induce a resort to house tax?

A—It has repeatedly done so and without such pressure few towns would have made the change.

Dr Hyder Q—In the list of municipalities where octroi was abolished and replaced by direct taxation I find Nos 9, 10, 13, 14, 15, 16 and others which, so far as my knowledge goes, are very small towns or rather sleepy hollows Only some people live there in rich houses and you could not possibly impose a levy on the whole area

A—Most of them are backward but some of them have considerable trade. Indirect taxation in the shape of octroi is partly popular in the towns, because a considerable part of the income is derived not from the town, but from the people who live in the wider area round the town, and who use it as their market.

Q—Is the burden of octroi or terminal tax greater on the markets of the town?

A—In large centres of trade terminal taxes are certainly a lesser burden When there is little trade the burden is much the same

Q—It looks as if the tax on trade is becoming intolerable when trade begins to shift from the town?

A—Yes, that is a danger, but many causes affect the shifting of trades If octroi is pushed too high, it certainly must tend that way.

Sir Percy Thompson Q—Are the rates under the terminal tax larger than under octroi?

A.—They are generally lower A good deal depends on the proportion of refunds under octroi That again depends upon the character of the trade If previously there has been a large proportion of refunds, terminal tax can be pitched at rates considerably lower than the previous octroi rates, without considering any other factors

Q—You think there is no possibility of getting rid of octroi and terminal tax altogether?

A—At present I do not think there is.

The Maharajadhiraja Bahadur of Burdwan Q—In the third letter that you have sent you say that eighteen municipalities have reverted or are reverting to indirect taxation You say that in some of them there is some form of direct taxation What is the exact nature of that direct taxation?

A.—I have not got this information for all the towns But I think that in many places a circumstances and property tax has been substituted

Q—What kind of tax is it?

A.—A kind of income tax

Q—Do people with higher rates of income pay double income-tax, one to the municipality and one to the Government?

A—Yes But the circumstances and property tax goes very much lower than the income-tax, and there is a maximum to the circumstances and property tax which can be imposed on any person.

Q—In your province, is there more desire to go in for the terminal tax?

A.—No I do not think there is.

Q—You say a number of them have reverted to octroi.

A—Yes

Q—If terminal tax is simpler, why do they revert to octroi?

A.—Mainly because they get more income from octroi.

Q—Do you find that the terminal tax is more popular than the octroi?

A—It depends a great deal on the character of the town For instance, in Cawnpore people are quite satisfied with terminal tax. Octroi would be extremely difficult to work

Q—In comparison with octroi, do you think people would prefer terminal tax?

A—I think when they get used to it, the people concerned probably would But they dislike any change

Q.—You say land cess has the drawback of falling on only one class That would be quite right, if side by side with land cess, you have a tax on circumstances and property.

A—That was the idea of putting a circumstances and property tax into the Act.

Q—Is it generally levied?

A—No District Board has actually introduced it. Two or three are proposing to do so.

Dr Hyder *Q*—Is it not better that the land cess should fall on the agriculturists or landed interests? If these people want sanitation, they have to pay for it. Nobody else would reap the advantage

A—The commercial classes outside the cities would also reap the advantages.

Q—Who pays this land cess? Is it paid by the cultivator or by the landlord?

A—It is very difficult to say who pays it ultimately The Act allows three-fifths of the excess over 5 per cent to be passed on directly to the tenant, the idea being that the 5 per cent would be levied from the landowner In practice, a considerable part of it is passed on, but how much it is, is very difficult to say

Sir Percy Thompson. *Q*.—Is it not right that the whole of it should be passed on; the man who really gets the benefit is the occupier? The landlord may be an absentee

A.—The landlord also gets the benefit

Q.—What benefit does he get?

A.—Many of them actually live in the rural areas, and even the others get direct or indirect benefits from District Board services

Q—If so, they would come under another tax.

A.—Not on their agricultural income

Dr. Hyder. *Q*—The bulk of the area is held by occupancy tenants?

A—Two thirds of the area in the province is held by occupancy tenants, but most occupancy tenants also hold a certain non occupancy area

The President *Q*—In reply to question No 107, you say that it does not seem necessary to make the levy of specified taxes imperative; but in reply to question No 160, you say that such benefit services as water supply should pay for themselves, and that a house and land tax should form part of the system

of taxation in all large cities. Would you not make it compulsory where you have these benefit services?

A.—I see no objection to doing so, but in practice it is always levied It is very difficult to find an alternative.

Q—Do you make these taxes cover the cost of the services?

A—In most cases they do not, but in the case of water-supply at any rate they ought to

Q—No steps are taken to ensure that the people who get the benefit from these services pay for them?

A.—In the case of water-supply, for example, people who get connections have to pay.

Q—Are they not metered?

A.—General metering is not possible, but there are substitutes

Q—Is it according to the size of the connection?

A.—The usual system is that of a ferrule rate.

Q—In the Municipal Administration Report for 1922 23, it is stated that the fitting of meters to all connections is an obvious remedy, but unfortunately a metered system to be effective demands a degree of unremitting attention for which no Board has yet shown capacity in any branch of its administration?

A—As a general proposition that is quite true

Q—In the case of water-rate, the rates charged do not cover the whole cost of the system?

A—Taking the whole of the province, I think, there are one or two cities where they cover it

Q—Don't you think it desirable to make these taxes compulsory up to the point of making them pay for the services rendered?

A—I certainly think it is desirable in the big cities, but it would probably be difficult to enforce it always

Q—Does not the great difficulty in enforcing direct taxes lie in the fact that hitherto direct taxation has been assessed by non officials? Do you think there would be a difference if it was assessed by officials?

A—There would be a difference and in some cases Boards do try and get officials to make the initial assessments, but as their decisions are liable to appeal to the Board, it comes to very much the same thing in the end

Q—An appeal is not a defect Would you like the Calcutta system where the appeal goes to the Small Cause Court?

A.—It would be better to have the appeal to an outside tribunal of some kind, but there would be a lot of political opposition to any such proposal

Q.—Have you no surcharge provision? I find that there is a provision in one of the Municipal Acts regarding the manner in which the accounts to be kept by Boards shall be audited and published, and the power of auditors in respect of disallowance and surcharge According to the rules, very wide powers are given to the auditors

A.—That system does not exist with us The Act provides for suits for compensation against members in cases of waste or misapplication

Q—If it had existed, would it not have proved a considerable incentive to a better assessment of taxes?

A—Such powers appear to be more concerned with the spending of money than with the assessment of taxes, and it would require very highly qualified auditors to exercise such powers

Q.—Isn't your Inspector of Local Fund Accounts an officer of some standing?

A.—Yes, he is, but he cannot be everywhere A provision of that kind might have very salutary results if proper safeguards were provided, but it would certainly meet with a great deal of opposition

Q.—I find that the District Boards are in deficit by 27 lakhs The report on the working of the District Boards for the year 1922-23 says that "the modest annual surplus of 1918-19 was by 1922 23 converted into the heavy deficit of 27 lakhs".

A.—This means that their expenditure exceeded their income by 27 lakhs, and that they had to draw on their balances to this extent It does not mean actual indebtedness, but suggests bad prospects for the future District Boards incur very heavy expenditure for education which Government pressed them to undertake, and for a large part of which Government still pays.

Q.—Don't they keep a banking account?

A.—They bank with the Government treasuries or with the Imperial Bank

Q.—Is there no means of preventing them from overdrawing?

A.—They cannot overdraw without sanction and are obliged to provide for minimum closing and reserve balances Local Boards may, with the sanction of Government, get an overdraft or they can borrow on securities, but District Boards have no power themselves to overdraw

Q.—So long as the Collector was President of the District Board, it was the practice to allow the Board to cash cheques without question; because the Collector saw that the budget was not exceeded Now, when there are non-official Presidents, they overdraw and do not even know to what extent they have done so.

A.—I have no experience of this having happened, but it is for their bankers to check it Irregularities may sometimes occur but they cannot under the rules overdraw or borrow without sanction

Q.—You say that under Indian conditions, it is impossible to dispense with octroi and terminal taxes

A.—I was only referring to the conditions in the larger towns in this part of India The numerous town areas and notified areas with many small municipalities depend on direct taxation

Dr. Paranjpye. *Q.*—You mentioned in one place that assessments on houses are difficult to make in large cities and easy to make in small towns

A.—I do not remember having said that. I may have said so with reference to a tax on circumstances and property.

Dr. Hyder. *Q.*—You say that octroi is liable to be extensively evaded usually by setting up small markets outside octroi limits Octroi, I understand, really comes out of the pocket of the consumer.

A.—Yes. It is usually the people who are coming from the countryside to buy in the towns who are intercepted on the way; they buy in the market outside the municipal limits.

The President. *Q.*—Could you tell us the principles on which octroi schedules are based or criticised?

A.—The only general principles which I know are to keep the rates low on the main articles consumed by the poorer classes and to omit from the schedules articles which will yield very little or on which the proportion of refunds will be very high.

Q.—You have no maximum?

A.—No

Q.—You don't think a maximum is desirable?

A—I do not think it is really necessary in the case of octroi. The rate is subject to sanction, and it has to be kept as low as is compatible with the absolutely necessary income

Q—What happens in Bombay is that a heavy tax is put on cotton and the town pays for compulsory primary education out of the proceeds of the tax on that particular item of trade

A—I do not think it is altogether fair To a certain extent that is liable to happen in terminal taxes A small number of staples may pay a large proportion of the expenditure of the town

Q—Is not that making the country pay for the town?

A—Yes. This applies both to terminal taxes and to octroi to a large extent.

Q.—One principle was suggested in the Central Provinces That is, it is desirable in taxing raw commodities which are necessaries to tax those produced in large quantities in the vicinity of the local body concerned. Where the tax is comparatively light and the cost of transport heavy, the actual price paid by the consumer may be moderate, and in fact lighter than in other parts of the province

A—In practice that is really very much what does happen because except in the case of towns, like Cawnpore, articles that come in, whatever the staples are, are produced in the vicinity

Q—Do you think it will be a good thing to have an enquiry into octroi schedules generally and lay down general principles and a maximum?

A.—I think it will be more useful to have an enquiry into terminal taxes I do not think there would be much use in an enquiry into octroi, which must be levied on articles of consumption I do not imagine that any very radical change can be made without abolishing it

Q—Is there no danger of one trade getting a predominant voice and favour to the exclusion of another?

A—It is a possibility, but parties are usually formed on a communal or caste basis

Q—Is it not possible that a municipality which is composed of lawyers may tax trade?

A—It is the business of Government to check that sort of thing

Q—Actually schedules are sanctioned by Commissioners, aren't they?

A—They go to Government from the big cities, in the smaller towns they can be sanctioned by Commissioners

Q—All but a few large towns?

A—Yes, in the second and third class municipalities they are dealt with by Commissioners

Q—You say that land cesses are essential for District Boards so long as the present system of land revenue is retained You do not contemplate any other systems?

A—I don't; but other systems have been suggested

Q—You also say that the landowner pays up to 50 per cent of his receipts in land revenue

A—The percentage varies a good deal; it may be 40 or 45 per cent., and the modern tendency has been to reduce the percentage

Q—You say that in the municipalities of your division only Cawnpore and Allahabad have house taxes Mr Gaskell told us that in the United Provinces

a large part of the city population escapes municipal taxation because they live in houses below the exemption limit.

A.—The exemption limit for Cawnpore is Rs 72 per annum, and for Allahabad it is going to be Rs. 48

Sir Percy Thompson *Q.*—You say that the limit is too low rather than too high; therefore an enormous number of people escape

A.—A great number of people do escape, but the poorer classes who live in the smaller houses really cannot pay much. As far as they are concerned, they pay their fair proportion in indirect taxation

The President *Q.*—It depends very much on the value of the houses.

A.—Yes, and in rented houses a large proportion is passed on to the tenants

Q—The assessment is done by one or two Commissioners?

A.—The Municipal Board, as a rule, puts on some one of their staff to make the assessments or sometimes a Government officer; and appeals to a Committee or to the Board are also allowed.

Q—Whoever does it, does it by a house-to-house inspection?

A.—Yes.

Q.—You say that profession tax is an impossibility in a large town?

A—I do not think it is a very workable tax in the large cities

Q—Why?

A—Because it is hardly fair to select a few out of a large number of trades and professions for special taxation The people who pay it are, I think, more fairly and adequately taxed by the house and land tax.

Q—The idea, I gather, is that in a small town everybody knows his neighbour's circumstances

A—Yes, and in small towns the house tax is not a suitable one, while taxes on trades and professions or on circumstances and property are workable.

Q—Would it not be practicable to have it assessed through the income-tax staff?

A—The income tax staff know nothing about people below their own limits and they have full work within those limits

Q—I suppose they know about people coming on to their books

A.—They may know something about them Profession tax would only be levied in the case of a limited number of professions, but not so the house and land tax

Q—Would you not contemplate a levy of both?

A.—No. I do not think that in the big cities there is any adequate reason for penalizing certain professions in that way.

Q—Does it actually penalize such professions?

A.—It is an extra tax on certain professions if you put on a profession tax.

Q—You pay for the right to carry on your profession within those limits and you pay for the benefit received in respect of your house

A.—The benefits, speaking broadly, are general, and taxation should also be on a general basis such as on houses and land

Q—Is not the tendency for the richer man to escape paying his fair share?

A.—The richest men would probably not be liable to a profession tax.

Q—Take a place like Benares where you have a very large number of houses that belong to people who occasionally visit the place

A.—There are a large number of lodging houses belonging to the Pandas.

Q—I refer to the houses belonging to the Maharajas and other people.

A—There are a certain number of houses belonging to them

Q—They do not pay anything towards the expenses of the municipality

A—They presumably pay a house tax, how they are assessed I do not know, but they are subject to the usual tax

Q—The house tax is extraordinarily low and they pay no indirect tax The rate may be 7 per cent as against 100 per cent in Western countries They also pay no profession tax

A—Most of them belong to Indian States and you cannot put on a profession tax on an Indian State as such

Q—These houses do involve a pretty large charge on the services of the town, but contribute nothing to the revenue

A—They will have to pay sanitation and water-supply charges

Sir Percy Thompson *Q*—We were told by Mr Blunt yesterday that when a building was erected on agricultural land adjoining a town, the land revenue was assessed on an agricultural basis at the next resettlement, and that at the resettlement after that it was left out altogether Is there any reason why either the Provincial Government or the local authority should not get a fair rent for that land as building land? So far from dropping it out altogether, would it not be fair to increase it and charge a rent equivalent to its building value?

A—The practice has not been altogether uniform but the general idea was that when the land definitely ceased to be agricultural it was no longer liable to assessment of land revenue and its taxation was a matter for the municipality concerned

Q—But you don't get at the increment at all

A—To some extent you do, but not adequately One of the reasons for establishing Improvement Trusts was the desire to get a more adequate share of the incremental value for public purposes

Q—The land tax is only on agricultural value?

A—Yes

Q—Why should it not be on this building land which may be ten or twenty times as much? Why should the owner pocket this windfall?

A—I think he pockets a good deal too much of it in many cases, but the matter is only important in growing towns

Q—Would it not, at any rate be regarded as fair and equitable that if agricultural land does increase in value by the building of a house on it either the local authority or the provincial authority (probably the local authority) should get the full value?

A—I think at any rate that they should get a proportion of it I think that is only fair, but it is more a matter for the local authority than for the provincial

Q—Has it ever been suggested in this province?

A—It has been suggested, but it has not been worked out, partly I think because the formation of Improvement Trusts was taken up

Q—In the Central Provinces they charge a competitive rent and the Provincial Government make over four fifths of the income to the local authority

A—Yes

Q—In the United Provinces, would that give a considerable revenue?

A.—In a few cities it does where there are large areas of *nazul*, but a great many of the towns in the United Provinces are not expanding and most of the land is not *nazul*. *Nazul* in these provinces is in most cases administered by the municipal boards which pay 25 per cent. of the income to Government.

Q.—In the meanwhile, all the increment is lost?

A.—Except as regards *nazul*, the greater part is lost.

The President. *Q.*—Even in the case of lands belonging to the State, I understand many of them are handed over to the management of local bodies.

A.—Yes, within the municipal areas they are generally handed over. Lucknow is the most important exception.

Q.—They may take an inadequate rent?

A.—Yes, sometimes they do, but the only bad case that I am aware of was in connection with certain leases nearly sixty years old in which local bodies would not face the unpopularity which would have resulted from entering on a long legal fight.

Q.—So there is another source of revenue that ought to be tapped?

A.—Yes, it is a possible source, but I do not think that on the whole local bodies have, as yet, been very remiss in this regard. Sometimes old conditions have so bound them down that they cannot increase the rents as much as is desirable.

Q.—Would it not be preferable to manage these by Government itself and then pay a portion of the profits to the local bodies?

A.—The financial results might be rather better, but the administration of *nazul* is very closely connected with local administration and local bodies have a good case for insisting that it should be made over to them so long as they carry it on with a fair degree of efficiency.

Q.—Is it not a disguised subsidy?

A.—It is but some kinds of *nazul* income (*i.e.*, *tehbazari*) are essentially matters for local bodies and even as regards other income the considerations alluded to in my last answer have to be borne in mind.

Q.—Is that desirable?

A.—It is a natural consequence of the policy of giving responsibility to local bodies in matters which are primarily of local concern.

Q.—What about cattle pounds? Is it not another form of disguised subsidy?

A.—I do not think so.

Q.—Who fixes the rates?

A.—The District Boards.

Q.—They don't take any other action than impounding the animals?

A.—They administer the pounds.

Q.—It is the police who do this work?

A.—No, not now. They are purely District Board concerns.

Q.—You advocate a detailed examination of the problems connected with unearned increments?

A.—Yes.

Q.—Would it involve less unpopularity than in the case of many other taxes?

A.—It would raise many difficult problems, but would not fall on so many people, partly because of its special character, and partly because it would only be an important matter in growing towns.

Sir Percy Thompson Q—It goes to the wrong people, is it not?

A.—It probably does go to the wrong people

Q—You say that the professions most easily taxable are precisely those likely to be most strongly represented in municipal boards, and they are naturally inclined to try and spread the burden over a wider area either by going back to indirect taxation or in some cases by changing over to a tax on circumstances and property. Do you think the tax on circumstances and property is better than the others?

A.—For small towns it is probably the most suitable form of taxation In large cities I do not think that it is workable, whereas a tax on houses and lands is suited to them

Q.—Why should it be difficult?

A—Because you are to deal with an enormously large number of people about whom very little is known accurately

Q—Because the exemption limit is lower?

A—Yes

Q—Under the schedule of incomes, can you not have the groups of classes to be assessed?

A.—The difficulty will still remain In a big city you cannot have sufficient materials to proceed on

Q—Does not somebody know?

A—Somebody may know, but either that somebody would not say or would give wrong information. It is very difficult to get an accurate basis There is nothing to check it by

The President Q—Here is a schedule showing the persons who are not assessed under the previous clauses No question of income there?

A—That is a sort of license tax If you are content with a rough estimate and a low tax it may be workable, but the results will be inadequate If you go higher than that, then unfairness will begin to come in and the difficulties of collection will be very great

Q—When you are dealing with people who get Rs 500 or so, you are dealing with people who ought to keep books?

A—Possibly they ought, but in practice very few of them do keep books A rough assessment is possible so long as it is kept low, but inequalities would be numerous and the difficulty of collection very great

Sir Percy Thompson Q—You say that the distinction between beneficial and onerous services is not much used in India Do you adopt that principle in general? For instance how would you class water supply?

A—I have said that water-supply and lighting may be classed as local or beneficial, but sanitation and conservancy, roads and education seem to be partly onerous, and partly beneficial You cannot call these services purely onerous

Q—What do you think really a onerous service?

A—I think police would be an example, but in India local bodies have no responsibility for police

Q—You are in favour of grants-in aid In the case of municipalities, are grants large enough?

A—The chief recurring grants are in connection with education, but a subsidy is also given towards the pay of trained sanitary inspectors Other grants are non-recurring and for special purposes in connection with education or sanitation

Dr Paranjpye. Q—Don't you give grants for dispensaries?

A.—Under the District Board contracts the whole of the subsidy goes under the head "Education". They pay for the dispensaries out of their general funds. Lately, there has been a discussion about the charges for dispensaries. Government increased the pay of the Sub-Assistant Surgeons, but the local bodies refused in many cases to pay the enhanced rates and the result is that many dispensaries will now be staffed by cheaper doctors not in Government service.

The President. Q.—How do you check the expenditure of these grants? *Don't you give your grants subject to a condition that if the results are not* satisfactory, the grant will be withdrawn?

A.—At present there is no satisfactory system of controlling efficiency by means of grants. Generally speaking Boards are genuinely keen on extending education. There is no local pressure in favour of a high standard—rather the opposite—but mere extension of education is popular. One weakness of the system is that the area of a district is too large for the people of any area to feel that they control the education of that area.

Q.—To what extent are the subsidies regulated by any definite rules?

A.—I am not familiar with the grants distributed for educational purposes and the rules which govern them. There are such rules but they are mainly based on numerical standards of attendance.

Q.—So long as you have no settled rules, it is very difficult to use a subsidy as a means of control?

A.—Control is only possible with wide powers of refusing subsidies or diminishing subsidies in case the results are not satisfactory, and with a determination to use those powers. Municipalities do not get as much help as District Boards.

Q.—Is that based on a specific set of rules? Is it applicable to all bodies alike?

A.—To all District Boards alike.

Q.—As regards roads, are there any rules?

A.—*Grants have been given* for special purposes, but there are no general provincial subsidies so far as I know. The main lines of communication have been kept under the Provincial Government's control, but all other roads have been made over to local bodies which have been relieved from their previous contributions to Government on account of staff and supervision. Previously all the pucca roads—apart from provincial roads—were maintained by the Public Works Department at the expense of the Local bodies.

Q.—Do you actually insist upon the road being kept in good order and passed by the Executive Engineer before payment of the grant?

A.—This hardly applies, as the most important roads are kept up by Government and local bodies pay for the remaining roads. A few lengths of road previously maintained by Government have been made over to local bodies for maintenance with a grant for upkeep. So far as I am aware, Government has not made any stipulation with regard to these latter grants.

Q.—Would you approve a plan to make over the roads together with a grant per mile subject to the condition that the grant is paid only after the certificate of the Superintending Engineer or some other officer that the road is maintained in good order?

A.—That is certainly a possible alternative to direct maintenance by Government but local bodies would probably find the bargain a bad one and they find it very hard to get and keep competent staff. On the whole I would retain provincial control at present. As regards the local roads, the question has not arisen. They have always been kept up at the expense of the local body.

Q.—You say that pilgrim centres deserve special consideration as regards grants for sanitary improvement. Don't you have a pilgrim tax?

A.—We have a pilgrim tax in Benares and Allahabad and in some other pilgrim centres.

Q—Is that made over unconditionally to local bodies?

A.—It is collected through the railway

Q—Have you any principle to follow in the case of poor District Boards?

A.—Contracts have been made with them. An estimate was made of the cost of working their main services at a certain standard, their resources were compared with this estimate, and as far as provincial finances permitted the difference was given to them This original working basis has had a series of educational grants superimposed on it.

Q—You have a regular contract with them, how many years does it run?

A—The original contract was intended to be for five years, but that has expired long ago Subsequent revisions have all been with reference to educational advances, and I do not think that periods have been definitely fixed though Government has described certain grants as only temporary

Q—You say that an attempt to abolish indirect taxation has failed as small local bodies would not collect direct taxes more especially from the influential classes You don't think there is any chance of that being stopped by appointing an official agency? My point is this Even in a democratic country like France, octroi is managed in the Municipality of Marseilles by men sent from Paris

A—This could have been done twenty years ago, but with the changes in ideas which have followed on the Reforms, I do not think any province in Northern India is likely to introduce such a system at present

Q—The tendency in democratic countries all over the world is to keep the local bodies in the position of framing policy and keeping the carrying out of that policy entirely in the hands of the official staff

A—That is unfortunately a point of view which does not commend itself either to Legislative Councils or to local bodies The general idea at present of the average member of a local body is to interfere in the details of administration in a way which is not attempted in England, and unfortunately there is a further tendency to make most things a matter of party politics Control from outside is greatly resented as being a relic of the old system Unprejudiced consideration of the matter is impracticable at present and the degree of control exercised in other democratic countries is not understood

Q—The idea now is that there is too much power in the hands of the local bodies We are seeking your advice now as to the ideal method of imposing and collecting taxes Do you consider it advisable to have an independent body of people to assess and collect taxes as in other democratic countries?

A—The change would be a desirable one as far as my experience goes and should give improved results in the working of the taxes, but the question remains whether it is politically possible

Q—What we are looking at is not the politically possible but the theoretically desirable

A—I certainly think it theoretically desirable provided sufficient care is taken to get impartial control of the taxing agency

Q—What are the powers of the Local Government over these local bodies? You have a certain power of control over their budgets and much more?

A—As regards municipalities Government has powers of dissolution and supersession in cases of default or abuse of powers and the budgets of indebted Boards are subject to sanction In the case of District Boards the powers as regards dissolution and supersession are similar, but control over budgets is limited to definite objects the most important of which is providing for a minimum closing balance

Q—On what principle you collect your chowkidari tax?

A—It has been absorbed in the general cess which was sanctioned by the Local Rates Act of 1914 This goes to District Boards as is laid down in the Act of 1922

Q—Is the chowkidar not a District Board servant?

A.—No, he is a Government servant. Originally he was to a certain extent a village servant, but now he is part of the police force He is paid out of the general revenues

Q—There is no separate cess for him at all?

A—No

Q—Is that one of the cesses that Sir Edward Baker abolished?

A—I do not remember, but the change was made in 1914

Q—You still have chowkidars, but no special cess for them?

A—We have no special cess for them A great number of them have been reduced, but there are still about 50,000 There is now only one rate with a maximum of 6½ per cent on the annual value

Q—The maximum is 10 per cent.?

A.—No, the maximum is 13 per cent of the land revenue

Q—Practically that washes out the Local Government's power?

A—Yes That is the only power of imposing rates

The Hon'ble Sardar Jogendra Singh *Q*—Taking everything into consideration, don't you think that a simple indirect tax would be more acceptable for local purposes than many taxes that are proposed here?

A—I do not quite understand your meaning.

Q—Say some single tax, such as a tax on tobacco, betel, etc.

A—You mean for local purposes?

Q—Would it be acceptable or workable for provincial purposes?

A—I do not think that it would yield much in comparison with the difficulty of administering it

Q—Do you think it is a very good idea to abolish all the taxes and increase land revenue by 80 per cent?

A—I do not think it possible nor would it be fair Outside towns, however, there is little that can be taxed directly or indirectly, except land

Mr. G. B. F. MUIR, I.C.S., Secretary, Municipal and Local Self-Government Departments, United Provinces, was next examined.

Note upon local taxation by Mr. Muir.

1. *Preliminary*.—As Secretary in the Municipal and Local Self-Government Departments I have been asked to prepare a note on local taxation I have held that position since 1921, but my experience has been that it gives few chances of gaining insight into this subject. There is as yet no real local taxation in the rural area and of the taxes in most towns the Secretary hears nothing except perhaps an occasional remark in an annual report regarding the sufficiency or otherwise of the yield, or criticising the accumulation of arrears From time to time proposals are received from some municipality or other for the revision of a schedule, the rectification of some defect, or more infrequently for the imposition of a new tax or the abolition of an old Correspondence upon such matters has naturally left me with a certain number of impressions which I here attempt to reproduce, but they are fragmentary and disconnected, and to real knowledge of the subject I can lay no claim Generalisations are in any case somewhat unsafe, for each individual town really presents a distinct problem

2 *Plan of note*.—Taxes for Municipal and for District Board purposes are in this province levied upon entirely different plans, for which reason the rest of this note is divided into two parts under the headings Municipal and District Board Taxation

Municipal Taxation

3 *Size of municipalities*.—The size of a municipality is an important factor, for within rough limits the ratio of the yield of a tax to population seems to be a function of the size of the town

Of the 82 municipalities in the plains (there are three hill municipalities to which I shall not refer) six have population exceeding 119,000 four having octroi and two terminal taxation

Nine have inhabitants numbering between 50,000 and 83,000, octroi is levied in seven and terminal tax in two

Eleven have population between 30,000 and 50,000 The main tax is octroi in four, terminal tax in six and a direct tax in one

Ten have between 20,000 and 30 000 inhabitants The main tax is octroi in two, terminal tax in seven and a toll in the tenth

There are 46 towns inhabited by less than 20 000 persons The main tax is octroi in eleven, terminal tax in two, a toll in nine, and a direct tax in twenty four

The toll is usually supplemented by a direct tax

4 *Direct taxation unsuited to large municipalities*.—For reasons which will be more apparent when I come to taxation in smaller towns, direct taxation postulates personal knowledge of the circumstances of assessees In the large towns the main tax must, therefore, be indirect and the choice lies between octroi and terminal taxation. Before attempting a comparison between the two, I wish to point to a defect common to both taxes

5 *Absence of scientific basis to rates of indirect taxes*.—The rates of octroi and the terminal tax and toll as levied in this province, do not rest upon any scientific basis The form in which statistics of octroi are compiled includes an eightfold classification of the articles taxed and was, I suspect, adopted in the hope that the information would be used for studying the economic effects of the tax and for their readjustment, but, so far as I am aware such use is never made of them There is no similar classification in the case of the terminal tax and toll Proposals for fixing the rates of both taxes and for the inclusion or exclusion of the various classes of goods emanate from the boards concerned If the tax is to be imposed for the first time some one prepares a list of the articles the taxation of which seems worth while Some use may be made of railway statistics, particularly in the case of the terminal tax Commonly the schedule of another town is adapted The selection ultimately made is probably not unsuitable, but this as also the rates proposed

is mainly a matter of guess work. If it is a case of revising a schedule, attention is usually confined to the rates or to the inclusion of articles hitherto untaxed. The exclusion of an article already taxed is seldom proposed. When the proposals are published locally, some section of the trading community may succeed in obtaining the exclusion of, or the reduction of the rate upon, some article in which it is interested. But a study of the taxable capacity, past or future, of the various sections of the trade is, I suspect, never seriously attempted. The proposals then reach the Secretariat or the Commissioner (the latter being the final sanctioning authority in the case of octroi in all but a few of the larger towns). How Commissioners proceed I cannot say, but in the Secretariat the schedules are compared with those in force in other towns. Rates which approximate to rates in force elsewhere are usually accepted. No other method of examination is possible, if it were, there would be no time for it, even the examination by comparison takes much more time than can easily be spared. I have no evidence for supposing that the selection of articles taxed and the rates at which they are taxed are generally unsuitable but I strongly suspect that there is in most towns, particularly those whose octroi schedules have long been left unrevised, room for improvement in both directions. But that, under present arrangements, could only be effected by intelligent study by the board itself of the taxable capacity of each section of the trade. I do not know how far material for such study is available; I feel certain that no board is capable of such study, boards and their committees deal with concrete matters the disposal of which is obligatory, and with that their energies are exhausted. Some time ago I suggested that an officer should be placed on special duty to go round the towns of the province and to overhaul their schedules. No officer was available and the proposal was dropped. Many months at least would be needed and possibly but trifling results might be achieved.

6. *Relative popularity of octroi and the terminal tax among municipal boards.*—From the figures given in my third paragraph it might be supposed that among towns of over 20,000 inhabitants octroi is the more popular form of indirect taxation in the larger and terminal tax in the smaller towns. The real explanation is different. Except in Cawnpore the adoption of the terminal tax was to a large extent the result of official pressure. (That, at least, is my impression, I have not found time to verify its correctness from the records.) Following upon the Municipal Taxation Committee's condemnation of octroi in 1909, the Government, I believe, at one time contemplated the substitution of terminal taxation in all towns too large for direct taxation. In some ten towns, including six with population of over 50,000, the idea was dropped at an early stage. In the rest the work of framing proposals for terminal taxation went forward, and was somewhat naturally completed first in towns of the second rank. The early results of the new tax were disappointing and six towns of the first rank which had framed their proposals with some reluctance, then pressed successfully for the retention of octroi. The yield of terminal taxes has since been improved by adjustments of the schedules and especially by measures designed to check evasion. But even now, with the exception of Cawnpore, there are probably few boards which would not welcome a return to octroi. Yet a study of the ratios of yield to population given in the statement in the appendix to this note suggests that while there may be some slight basis for the belief that octroi is the more productive tax, the advantage, if it exists, is much less than boards commonly suppose.

7. *Octroi and terminal taxation contrasted.*—The terminal tax differs from octroi in three ways—

(a) It is collected by the railway instead of by municipal agency.

(b) No refunds are given.

(c) There are no *ad valorem* rates.

The complementary terminal toll differs from octroi in three ways also—

(d) No refunds are allowed.

(e) There are no *ad valorem* rates.

(f) Except in certain towns in which terminal tax rates have been imposed on articles with which evasion of the terminal tax was commonly practised, terminal toll is assessed on the vehicle, and not on the weight of each consignment.

The methods of collecting the terminal tax and of assessing the terminal toll are of course designed to lessen the impediment which any form of indirect taxation opposes to trade, and in theory this feature of the terminal tax and toll should be preferred by the trading community. How far traders actually prefer the terminal method of assessment and collection I do not know. I can only say that I am not aware of any instance in which traders have actively voiced such preference. Possibly the resulting convenience is felt to be outweighed by the absence of refunds. Time is not a very valuable commodity in this country and labour is cheap.

There are arguments both for and against *ad valorem* rates. They were roundly condemned by the Municipal Taxation Committee as opening the door to corruption and as in any case constituting a serious impediment to trade owing to the necessarily complicated procedure for assessment. These are valid criticisms. On the other hand, if it be true that terminal taxation is less productive than octroi, the reason is probably to be found in the absence of *ad valorem* rates. Both octroi and the terminal tax commonly extend to the whole range of the trade of the town. The classification embodied in the schedules of both taxes is generally minute, yet there are always certain items which include goods of widely varying value, such as piecegoods and groceries. Upon such in the case of octroi an *ad valorem* rate is usually imposed, but the flat rates used for the terminal tax must necessarily be adjusted to the taxable capacity of the least valuable goods included in each class, thus the more valuable are not taxed to their full capacity. The trade itself could probably propound a sub-classification with flat rates which would result in the proportionate taxation of goods of all values; but it seems very questionable whether this could be made intelligible to the persons charged with the duty of assessing the tax.

The refund system is another feature of octroi strongly criticised by the Municipal Taxation Committee which held that the machinery maintained by the board for granting refunds and by the trade for obtaining them is unproductive waste of energy even when working efficiently, and that the system undoubtedly lends itself to peculation, fraud and extortion. The argument to my mind is decisively against the system, yet I question whether any board views these evils with real concern or whether the trading community holds generally that the advantage lies with the lighter tax and no refunds. Protests have on occasion been received against the taxation of through trade, but I have never known a trader contend that he would be better off if refunds were abolished and the rates lightened. Probably most traders in a large way of business succeed in making to their own satisfaction permanent arrangements for obtaining refunds.

8. *Future of octroi and the terminal tax*.—The policy of the Government since the Reforms has been to allow boards much liberty in selecting their taxes. That policy is likely to persist. If so, it seems improbable that terminal taxation will replace octroi in any town which now has the latter tax. A revival of trade and less difficulty in the balancing of budgets might change the views of boards but I think it is unlikely. At any rate it seems clear that octroi for many years to come will remain the chief municipal tax of the province. I do not view that prospect with concern. Whatever may in theory or practice be the defects of octroi, it is certainly a tax well suited to the genius of the people. The Municipal Taxation Committee, condemning the tax, did not attempt to consider how it could be improved. There may quite possibly be no way in which the tax could be improved without sacrificing the advantages for which it is valued. But should an officer ever be placed on special duty to overhaul octroi and terminal tax schedules, it would be worth while also to commission him to investigate the possibilities of removing or minimising the defects of octroi.

9. *Taxation in small towns*.—In the small towns the Municipal Taxation Committee recommended that octroi should be replaced by direct taxation. In 34 towns that recommendation was carried into effect. The measure has proved a very partial success. There are three principal forms of direct taxation, the tax on lands and buildings, the tax on trades and professions and tax on circumstances and property, the last being the most common form. All three are alike in that assessment is to a great extent an arbitrary proceeding, more particularly assessment to the tax on circumstances and property. In this tax there is invariably an upper limit to the amount leviable from a single individual and also a limit expressed in terms of income below which individuals are exempt. The assessment is made by one or more members of the board. The first step

is commonly to pick out the persons who should pay at the maximum rate. Next a selection is made of those who should pay at a lower rate and so on down to the bottom of the scale. Though in the case of persons who receive a known fixed salary (usually near the bottom of the scale) the tax is assessed on income and though the assessors may proceed by estimating the incomes of other classes, the tax is not an income-tax, for the true incomes of the assessees other than salaried servants, are not and cannot be ascertained The truth of this observation will be recognised by any one cognisant of the difficulties experienced by the *Income tax Department* *Nor is the tax by intention an income-tax* It is intended to be based simply on a rough and ready assessment of capacity to pay. The assessment of the tax on trades and professions is similar. There is perhaps a greater tendency to proceed by way of estimating income but in reality the tax only differs from the tax on circumstances and property in that it is restricted to those who in some way work for their living. The tax on buildings and lands is a tax on assumed rental values; there is thus a material basis for assessment, but assessment is still an arbitrary proceeding, and the house occupied by an assessee is often no true indication of his taxable capacity This tax is less unpopular than the other two but all three taxes are intensely disliked both by the boards and by the assessees Assessees complain that favouritism is rife the boards of the odium to which the taxes expose them and of their difficulty in collecting them In truth the position of an impartial assessor is unenviable His friends are annoyed because they are not let off lightly, his enemies take a fair assessment as a hostile act Added to this direct taxation is inelastic and unproductive The advantages claimed for direct taxation are I believe that it is inexpensive to collect, that it avoids taxation of the poorer classes and that, being directly felt, it is a salutary stimulus to economy The first contention is true The second argument begs the question whether a narrow or a broad basis is to be preferred for local taxation. As to the third point while I am no advocate of municipal extravagance, I believe that in perhaps a majority of towns direct taxation no longer suffices for the boards real needs In any case even if the arguments are sound, *such abstract considerations seem unlikely to influence the actual result. Under* an Indianised Government the gradual disappearance of so uncongenial form of taxation seems inevitable The process has begun and has indeed the support of many experienced European officers Of the 34 towns in which octroi was abolished [illegible] have already reverted to octroi, in two the terminal tax has been imposed Proposals for the introduction of octroi are pending in two and of terminal tax in seven other of these towns *Incidentally* this apparent preference for the terminal tax is probably to be explained as due to the impression that Government disapproves of octroi, and that escape from direct taxation is more likely if the terminal tax is proposed

10 *Other municipal taxes* —There are several other kinds of municipal tax but none which it seems necessary to bring to the notice of the Committee

District Board Taxation

11 District Boards, unlike municipal boards receive a high proportion of their income in the shape of grants from the Government mainly for primary education Government's grants in the year 1923 24 formed 33 per cent of the *revenues of the District Boards of the province* Miscellaneous *income accounts* for another 35 per cent Taxation yielded only 32 per cent

12 *District Board's powers of taxation* —Outside the comparatively small permanently settled area where an acreage rate is in force the only tax levied at the present time is a surcharge of 10 per cent on the land revenue known as the local rate The District Boards Act of 1921, which set up boards devoid of *any official element on the model of the municipal boards created by the* Municipalities Act of 1916 conferred for the first time upon District Boards the power of taxation A District Board may now impose a tax on circumstances and property upon persons whose income derived from other than an agricultural source exceeds Rs 200 per annum and may then, but not before enhance the surcharge upon the revenue up to 13 per cent. The linkage of *the two taxes was a concession to landlord interests in the Council which would* otherwise have thrown out the Bill Their plea was that the "land" already bears more than its fair share of taxation; and it is perfectly true that trade in the rural area at present escapes taxation for local purposes But trade in the rural area is of relatively slight importance and no one expects a substantial yield from the tax on circumstances and property; the difficulties of assessment *and collection so keenly felt in the smaller towns are likely to be much*

accentuated in dealing with assessees scattered throughout a district; and according to an opinion commonly held, the real motive of the landlord party was merely to impede the enhancement of the local rate Be this as it may, though the budget of hardly any board balances on the right side and hospitals are starved and the roads are going to bits, the first proposals for the tax on circumstances and property were only framed in the closing months of 1924 and only by three or four boards The rest are either petitioning for further grants or are casting about for some other form of taxation Whether any board will ever screw itself up to enhance the local rate seems very doubtful All this appears to me another instance of deep-rooted dislike of direct taxation, instinctive rather than reasoning, for certainly among a people whose sole industry is agriculture, it is difficult to imagine any form of local tax more fair in its incidence than a surcharge on a tax so laboriously and carefully assessed as the land revenue Further the local rate has the advantage to a board that its assessment and collection cost a board nothing But arguments of that nature will not suffice to overcome the opposition to an enhancement of the local rate, and as there can be no question that every board needs more money and as the proceeds of the tax on circumstances and property are likely to be trifling it would be an excellent thing if a suitable indirect tax could be discovered I do not think that it can There has been talk of a tax on vehicles which, if the yield were to be significant, would have to cover bullock carts, the only vehicle which is found in any numbers in the rural area, but no one has been, nor I think will be, able to suggest any feasible means of taxing bullock carts Meanwhile efforts are being made to induce boards to make use of their new powers of taxation, but it seems more than likely that in the end the Government will be forced to find for District Boards the extra income which they all need

13 *Use of grants for the control of District Boards*.—One of the questions included in the Committee's questionnaire suggests that it may be an advantage that local bodies should receive a portion of their income in the shape of grants which could be used as a lever for their control The character of the Municipalities and District Boards Act might be cited as an additional argument in favour of the adoption of the plan in this province Short of dissolution or supersession (measures which every Minister would do his utmost to avoid), these Acts provide hardly any means by which the Government can effectively correct abuses There is, for instance, no means of enforcing compliance with an auditor's objections In these circumstances it might be thought that control through grants would be attempted and in the case of grants of the order of those given to District Boards would be most effective But though grants are now used to encourage expenditure in selected directions, I see little prospect of any corrective use being made of grants while political conditions remain as they are now No Minister has, nor for an indefinite period is likely to have any considerable following at his back and political opinion of every shade is always ready to take sides with a local body in any difference which occur between it and the Government Meanwhile mendicancy is demoralising and cannot be suppressed while the grant system continues, for no matter how vigorously the Government may protest their determination not to increase their contributions to local funds, every District Board persists in hoping that importunity will ultimately secure an addition to its grant and in this hope boards are encouraged by the trend of unofficial opinion as expressed in the Legislative Council For this reason I am inclined to think that District Boards would function more healthily, if for their recurring expenditure they were independent of assistance from the Government But it would not suffice merely to allot revenues equivalent to the grants now made The Government at present makes use of District Boards for the discharge of functions which are provincial in the sense that the Government cannot regard them as matters of mere local concern primary education for instance and the wider aspects of the prevention of disease among men and domestic animals If merely grants were replaced by the allotment of revenues the Government would soon find themselves compelled to supplement those revenues by additional grants in order to avoid stagnation in such branches of the administration To end the grant system finally it would be necessary to revise the classification of provincial and local functions including in the latter no function of more than local concern Such a re-arrangement would in my opinion benefit the country particularly in the domain of public health, but would not at present find support in any political quarter

APPENDIX.

Statement comparing the yield (per head of population) of the various types of taxation in the municipalities of the plains of the United Provinces in the year 1923-24

	Town.	Yield (in round thousands).	Population in round thousands)	Incidence
				Rs.
A.—Towns of over 100,000.				
(1) Towns with octroi	Lucknow	7,89	2,17	3 67
	Benares	7,88	1,95	4 04
	Allahabad	5,76	1,46	3 94
	Bareilly	3,96	1,19	3 33
Total	4	25,49	6,77	3 77
(2) Towns with terminal tax — Date of imposition 1896	Cawnpore	11,95	1,95	6·13
1920	Agra	4 52	1,64	2 75
Total	2	16,47	3,59	4 58
B.—Towns between 50,000 and 10,000				
(1) Towns with octroi	Meerut	2 92	78	3 74
	Shahjahanpur	1,15	72	1 59
	Jhansi	1,14	54	2 11
	Aligarh	1,47	67	2 19
	Gorakhpur	1,33	50	2 66
	Fyzabad	1,04	51	2 04
	Mirzapur	1,48	55	2 69
Total	7	10 33	4 27	2 64
(2) Towns with terminal tax — Date of imposition 1919	Moradabad	2 41	83	2 90
1919	Saharanpur	1,38	62	2 22
Total	2	3 79	1,45	2 61

	Date of imposition	Town.	Yield (in round thousands)	Population (in round thousands)	Incidence
					Rs
C.—Towns between 30,000 and 50,000					
(1) Towns with octroi		Muttra	1,01	43	2 35
		Jaunpur	72	33	2 18
		Pilibhit	80	32	2 5
Total		3	2,53	1,08	2 34
(2) Towns with terminal tax.	1920	Farrukhabad	98	48	2 04
	1921	Dehra Dun	1,13	36	3 14
	1921	Etawah	1,02	42	2 43
	1920	Budaun	76	39	1 94
	1919	Hathras	1 05	39	2 69
	1920	Hardwar	60	31	1 93
Total		6	5,54	2,35	2 35
(3) Towns with direct taxation		Sambhal	32	42	76
		Amroha	53	40	1 32
Total		2	85	82	1·04
D.—Towns between 20,000 and 30,000					
(1) Towns with octroi		Hapur	41	20	2 05
		Firozabad	27	20	1 35
Total		2	68	40	1 70
(2) Towns with terminal tax	1919	Bahraich	40	27	1 48
	1921	Khurja	42	26	1·61
	1919	Chandausi	60	25	2 4
	1919	Ghazipur	47	25	1 88
	1922	Muzaffarnagar	53	24	2 20
	1921	Kasganj	37	21	1 76
	1921	Banda	42	20	2 1
Total		7	3 21	1 65	2 06
(3) Towns with toll		Sitapur	42	22	1 91
Total		1	42	22	1 91

Town		Yield (in round thousands)	Population (in round thousands).	Incidence.
				Rs.
E.—Towns below 20,000				
(1) Towns with octroi	9	2,36	1,09	2·16
(2) Towns with terminal tax	1	26	17	1·53
(3) Towns with toll	9	2 51	1,30	1 93
(4) Towns with direct taxation	26	3,55	3,56	99

NOTE —In the figures for yield the income from water rate and from pilgrim tax is omitted, as these taxes are levied in only a few towns The figures include the income derived from all other municipal taxes other than those imposed under special Acts such as the Cattle Trespass Act, the object being to show the total income which a board succeeds in extracting by taxation, and not merely the income received from its main tax

It will be observed that the yield in towns without indirect taxation is much less than elsewhere

As to the debatable question whether octroi or terminal taxation is the more productive form of indirect taxation, some regard must be held to the peculiar circumstances of certain towns Thus among towns with the terminal tax, Cawnpore, Moradabad, Etawah Hathras, Chandausi are industrial centres, and raise the average yield of the class in which each is included. It is possible that the yield of octroi in them might be even greater Dehra Dun too is an exceptional case as it is the railhead for Mussoorie and Chakrata, and the high incidence of terminal taxation in this case is to be attributed simply to taxation of an exceptionally large volume of through traffic Data for a definite answer to the question could only be obtained by detailed investigations made separately in each town

It may be added that in the year 1923 24 the municipal boards of the province obtained from the sources included in this statement 51 45 per cent. of their total income excluding Government grants towards capital expenditure.

Mr. Moir gave oral evidence as follows :—

Sir Percy Thompson. Q—You say that the size of a municipality is an important factor, for *within rough limits the ratio of the yield of a tax to population seems to be a function of the size of the town.* Does that appear from the schedule given at the end?

A—I think so. What I meant was that the returns for one lakh raised more per head per population than the next class and so on. The smallest town has the smallest per head per population.

Q—*Is there very much in it when you get below one hundred thousand?*

A—There is not much difference between the fifty and the thirty thousand towns, but there is a drop in smaller towns The effect seems present throughout the scale.

The President Q—The toll you refer to in paragraph 3 is the terminal tax on carts, is it?

A—It is a tax on loaded carts

Q—You say direct taxation postulates personal knowledge. I do not quite understand your meaning

A—I tried to explain it later on when I came to direct taxation

Q—That assumes that taxation must be by members of the board.

A—It is by members of the board

Q—That is a peculiar system which has been rather abandoned in most advanced and democratic countries

A—I do not know anything about that, I have only tried to explain the practice prevailing here.

Q—Here is an opinion of an American Committee "There is no experience to justify the belief that, if the States turn over to the local governments independent sources of revenue, and adopt the theory that local taxation is an affair of purely local interest, we shall ever have a satisfactory administration of the tax laws by the local officials"

A—I do not quite follow what you are trying to show.

Q—If you want the tax to be properly administered, you must have a special staff for it

A—I entirely agree with that But there is no arrangement of that sort in this province If we could find a taxation staff which would be independent, it would be very much better

Q—You will be able to get direct taxation.

A—You will

Q—So what you say in the written statement will not apply?

A—It will no longer apply

Dr Hyder Q—You think the yield of tax is proportionate to the size in the matter of population Don't you think that the volume of trade or the industrial activity of the locality have also got something to do with it?

A—Yes

Q—You may have a very ancient town with no trade or industrial activity.

A—Yes Budaun is in that condition, all the trade is at Ughani, 11 miles away But generally, I think, towns are all centres of trade

Sir Percy Thompson Q—You say that under the present arrangement a study of the taxable capacity of the various sections of the trade is never seriously attempted On what principles would you determine the taxable capacity?

A—By looking at the circumstances of the trade in each article Of course, if an article is a necessity it should be taxed less than an article which is a luxury. What I meant was that when a municipal board revises the schedules, it has, I think, very little idea of the volume of the trade in the particular article which they are considering and of the profits which were made by the importer.

Q—Do you think it is not passed on to the consumer?

A—Well, he does pay in some cases.

Q—You mean that the taxable capacity would be the point above which the yield would tend to diminish if you impose any higher rate?

A.—I was not intending to suggest that the taxation should be at the maximum capacity. I think on certain articles boards levy too high a tax, but others they might quite profitably tax somewhat higher than the present rate.

Q—Would it necessitate any maximum unless the people tended to leave the town because the tax made the prices too high?

A—You can reduce in special cases.

Q—Would you tax articles of food?

A—I think to some extent it is quite possible

Q—I should think your idea of taxable capacity was a wrong basis, because it would result in taxing on the wrong things heavily

A.—In the case of octroi, don't you think that the schedule should be drawn up on the basis of the volume of trade, so as to get a scheme of taxation which will probably be evenly distributed? I do not find it very easy to express my idea

Q—I shall put to you the propositions laid down by another witness and ask your opinion on them "Where the commodity is a staple export the price is determined by world conditions, and what is paid to the producer is roughly export price *minus* cost of transport As the commodity can be exported from stations where no octroi tax is levied, it is probable that in a municipality where octroi is levied the tax will be borne by the consumer Where the raw commodities are not a staple of export and the municipality is the main market, the octroi mainly falls on the producer".

A—I do not know anything about that

Q—Octroi on raw materials falls either on the manufacturer or the agriculturist, and on imported goods on the consumer In fixing the octroi scale, he recommends that it is desirable, in taxing raw commodities which are necessaries, to tax those produced in large quantities in the vicinity of the local body concerned

A—Yes

Q—You would like to have a thorough enquiry into these principles?

A—Yes

Q—Into the canons of octroi taxation?

A—Yes

Q—And see how far the schedules comply with them?

A—Yes

Q—Do you think it would be useful for two or three officers to consult in a matter of that sort?

A—It might be so, but I myself am entirely confined to this province

Q—Will it serve any useful purpose to summon a conference of officers who have studied the question of octroi taxation?

A—You will first have to make our officers study the question

Q—If a duty were at penal rates, would it come to your notice?

A—Probably, but not necessarily

Q—Can you tell us what was the reason for a particular tax being put on the cloth trade at Etah?

Dr Hyder—It is the head quarters of the district The rural population take their supply from Etah

The President Q—But what special advantages do the cloth merchants derive from the municipality so as to bring them under section 128 (2)?

A—I do not know

Q—There is also the case of the brick burners

A—That was probably done by the Commissioner. They have got final powers except in the case of the cities I do not think there was any reference to Government about that.

Q—Would you impose a maximum on necessities?

A—I think probably it would be a good thing When schedules come up to Government, we don't allow them to tax beyond a certain rate We always try to keep it down

Q—The tendency has been to relax control?

A—It has been

Sir Percy Thompson Q—You say that octroi is the more popular form of indirect taxation because the results of the new tax were disappointing.

A.—Yes.

Q—If any municipality wanted to convert terminal tax to octroi duty, can it do so?

A.—I know of one instance, that of Agra, which wanted a couple of years ago to go back to octroi They were told that they must give the terminal tax a fair trial.

Dr Paranjpye. *Q*—Which is the more productive of the two?

A—I think there is very little in it. There was an impression at one time that terminal tax would not pay

Q—When they actually got as much as they got from octroi, there must be some other reason for then wanting octroi

A—I do not think the trade wants it

Q—It is simpler for the trade

A—It does not seem to think so

Sir Percy Thompson *Q*—Then, it is really because they think—possibly erroneously—that an octroi would give more revenue?

A—I think that is to some extent true I understand that Lucknow is trying to get rid of octroi.

Dr Hyder *Q*—And get on to a terminal tax?

A.—Some other kind of tax I have only heard it mentioned quite casually; it is only a rumour The other day the representatives of the Merchants' Association at Muzaffarnagar came to me and said that on the export of wheat they would prefer to have an octroi instead of a terminal tax they prefer a tax in which they would get refunds in spite of the inconvenience.

The President *Q*—In other words, the terminal tax is operating as a transit duty?

A—Yes

Dr Paranjpye *Q*—Has any municipality proposed the two together, terminal tax by rail and octroi by road?

A—No; a terminal tax is always accompanied by a terminal toll As a matter of fact, we have practically got down to an octroi in some cases where the terminal toll is imposed at rates equivalent to the terminal tax rates If there is a railway station five miles away from the municipality, goods of high value and small bulk could be profitably unloaded from the railway and imported in carts, which only paid the toll To stop this the toll is now levied on the amounts imported in each cart, not merely on the cart load

The President *Q*—The terminal tax varies with the class of goods, but the toll is the same in all cases?

A—It is not There are different classifications Two plans have been adopted under one, it is really a toll, but on carts containing particular classes of goods specially high rates are imposed, under the other there is what is practically an octroi on certain classes of goods, that is, the tax is not on the vehicle, but on the actual contents of the vehicle

Q—Is that the normal thing?

A—Yes

Q—In the matter of shifting from one tax to the other, could you explain the meaning of the rule in the Scheduled Taxes Rules, which allows you to impose an octroi anywhere, but only a terminal tax on goods imported into a local area in which an octroi was levied on or before the 6th July 1917?

A—The Government of India wished to control any extension of the terminal tax to towns in which an indirect tax was not in force

Q—How do you find this arrangement?

A—It is a nuisance Whenever we want to vary a terminal tax in a town in which it was introduced with the sanction of the Government of India, we still have to apply for their sanction to the revision of the schedule

Q.—Whereas in the case of octroi, you can do anything you like?

A.—Yes.

Q.—It is an endeavour to retain control which has been abandoned?

A.—Yes

Q.—Have you any idea as to what proportion of the money collected from the trader under the octroi system gets into the coffers of a municipality?

A.—I have no experience

Sir Percy Thompson *Q*.—Do you think you could check abuses in the levy of octroi?

A.—It is very difficult; a great deal depends on the Octroi Superintendent.

The President *Q*.—Would you modify your opinion that "for many years to come the octroi will remain the chief municipal tax of the province", if official assessments of direct taxes were practicable? The South of India has had no octroi for generations

A.—People are certainly opposed to any form of direct taxation

Q.—If direct taxes were introduced, would they lead to riots?

A.—No, but I rather doubt if you could do it

Dr Hyder *Q*.—Would a direct tax, say a tax on houses, yield a large revenue?

A.—It is a question of the rates at which you levy the tax.

Q.—You are familiar with the towns in the United Provinces Take the smaller towns where direct taxes are imposed There will only be a few houses, however high your rates may be

A.—The rates are pretty low

Q.—Regarding water-rate, you would make the services pay their way.

The Hon'ble Sardar Jogendra Singh *Q*.—What about the tax on circumstances and property?

A.—It is levied on incomes as low as Rs 10 a month, the tax on such incomes is so low as to be really not worth levying

Q.—Your Municipalities are graded into first, second and third classes, aren't they?

A.—Yes, but not for general purposes, only for certain particular purposes

Q.—A notified area is an area in which certain provisions of the Municipal Acts are in force?

A.—Yes

The President *Q*.—I rather thought from reading your Report on Municipal Administration and Finances for the year 1922-23 that Government are disappointed about the future of municipal administration

A.—I think to some extent they are.

Q.—You say in the report that "municipal services were usually rendered in tolerable fashion, but failed everywhere to reach a standard of really business-like efficiency"

A.—I think that is true

The Maharajadhiraja Bahadur of Burduan *Q*.—Is not that true all over the country?

A.—I don't know.

The Hon'ble Sardar Jogendra Singh *Q*.—The position has not deteriorated Is it not just the same as it was two or three years ago?

A.—I do not think there has been any particular deterioration

The President *Q*.—You say that the Cawnpore water supply plant, besides being very old and admittedly liable to a calamitous breakdown at any moment, is unequal even to the present demand, persons legally entitled to

house connections have been unable to obtain them; the operations of the Improvement Trust have been gravely hampered, and that the development of the city has been arrested Don't you think that there is any prospect of the imposition of sufficient taxes to make the organization an efficient body?

A.—It is a question of more money.

Dr Paranjpye *Q.*—It is a question of recoveries.

A.—Not entirely; I do not think the collections are now so bad in Cawnpore.

The President *Q*—You refer to one municipality in which the actual amount due is unknown, as the registers have not been totalled for many years.

A.—That is Benares, it is doing better now.

Q.—You have no provision for surcharge?

A—Unfortunately, we haven't

Q—Has the surcharge provision ever been suggested here?

A—Not to my knowledge.

Q—Do you think it likely that anything in the shape of direct taxes could be introduced without very strong pressure from outside?

A—I think it would need very great pressure

Q.—Is it not a fact that non-agricultural land is to a great extent untaxed either by Government or by the local bodies?

A—I think that is true.

The Hon'ble Sardar Jogendra Singh *Q*—Has a person who builds a house on a piece of land any capacity to pay a tax in addition to what he pays as rent?

The President *Q*—The administration of *nazul* lands is handed over to the municipalities, is full economic rent extracted for such lands?

A—I doubt if it is

The Hon'ble Sardar Jogendra Singh *Q*—*Nazul* lands have a charge on them when they are allowed to be built over?

A—There is a rent charged

The President *Q*—Suppose Government were administering them direct instead of handing them over to the municipalities, Government would probably realize more from them than the municipalities now do.

A—Possibly so I do not think there has really been any attempt to extract the full potential income The rules are rather lenient to the lessee, they allow for a 90 years' lease with renewals at 30 years, and the condition that the rent at renewal shall not be raised by more than 50 per cent

Dr Hyder *Q*—Are not these *nazul* lands made over for the use of colleges?

A—In certain cases If a piece of *nazul* land is wanted for some public purpose, it is generally made over free

Sir Percy Thompson *Q*—Agricultural land continues to be assessed to land revenue at agricultural rates, although it has increased in value twenty times In such a case, does the municipality get any part of the increase?

A—Not of the potential value

The Hon'ble Sardar Jogendra Singh *Q*—Is it not a fact that a piece of agricultural land, which comes into a town and is built over, does not belong to Government? It belongs to some landowner Except the *nazul* land, there is no other land which belongs to Government?

A—When it is built over, it ceases to pay any tax at all, and the whole of the unearned increment goes to the pocket of the owner.

The President. Q—There are a considerable number of wealthy absentee house-owners, as in Benares, who pay practically nothing or very little towards the municipal revenue?

A.—Probably there are

The Hon'ble Sardar Jogendra Singh—I have some houses in which I do not live I pay a house tax. I do not get any exemption. There is no exemption so far as I know.

The President. Q—Is there a house tax in Benares?

A.—There is

Q—You have no maximum on the taxation of the necessities consumed by the poor, but you have a maximum on those taxes paid by the rich man?

A.—Yes.

Q—What is the maximum for profession tax?

A—It varies in each case, there is no statutory maximum.

Q—You have nothing running up to a thousand rupees?

A—I do not think so.

Q—There is no taxation of companies?

A.—Not as such, only a tax on circumstances and property or on trades.

Q—What would a big cotton mill in the middle of Benares pay?

A.—A house tax.

Q—*It would undoubtedly use the municipal services.* Would it pay a special rate for the water which it takes?

A—I think the mill would be metered.

Q—Under District Boards there is a deficit of 27 lakhs of rupees. How does that arise?

A.—Their income has not gone up, but the cost of their services has.

Q—Do they budget for deficits?

A.—Yes

The Hon'ble Sardar Jogendra Singh Q—Are the deficits due to the fact that Government have ceased to give any additional grants to them?

A—No; I think they are making grants in the same proportion as they were doing before.

Q—Grants for the old works are continued, but so far as new works are concerned, only in very few cases are grants sanctioned by Government; is that so?

A—The decrease is almost entirely under education.

The President. Q—I find that the Government grants were—

1918-19	30·54 lakhs of rupees.
1921-22	68·68 „
1922-23	54·68 „

A.—The drop in 1922-23 is an educational matter. When a District Board ended the year with an unspent balance of the Government grant, this was deducted from the amount of the Government grant for the next year.

The Hon'ble Sardar Jogendra Singh. Q—The new Act has been in force for two years?

A.—Yes.

The President. Q—Do the Government accept deficit budgets from District Boards?

A.—They have so far.

Q—Without requiring them to impose fresh taxation to meet the deficits?

A.—Government powers are very limited. They can return the budgets, but they cannot force boards to impose fresh taxation.

Q.—How is the deficit of 27 lakhs met?

A.—From the balances

Q.—Your report for 1922-23 says that "the modest annual surplus of 1918-19 was by 1922-23 converted into the heavy deficit of 27 lakhs." Is there still a balance?

A.—The District Boards had a fairly large balance a few years ago.

Q.—What is their system of banking?

A.—They bank with the treasury.

Q.—The District Boards are heading straight to bankruptcy?

A.—Yes, and I must say that to some extent Government are partly responsible for it Education is the chief item they are spending money upon, and they cannot retrench on that.

Sir Percy Thompson *Q.*—All Boards can get on if they raise the assessment and impose fresh taxation?

A.—Their immediate needs would be fully met.

Q.—Have any boards imposed additional taxation?

A.—A few of them have sent up proposals to impose a tax on circumstances and property.

Q.—Your view seems to be that the District Boards have too much to do?

A.—I think in some respects they have too much to do I do not think that "Public Health" should be treated as a local subject

Q.—Do you think that "Education" should?

A.—I am rather doubtful about it But I have nothing to do with education, the Education Department deals direct with District Boards, not through the Local Self-Government Department

The President *Q.*—Mr Blunt has given us a note on the general finances of the province, in which he says that the whole system is incapable of adequate expansion, and the two reserve taxes would be difficult to impose and collect I take it that this does not so much apply to Local Self-Government Both District Boards and Municipalities have considerable reserve powers, they have only to exercise them?

A.—Municipalities have, but not District Boards

Q.—Has any estimate been made as to what the tax on circumstances and property would yield?

A.—I do not think any estimate is possible It has been suggested that it might yield, say, about 7 lakhs for the whole province But it is only a guess.

The Hon'ble Sardar Jogendra Singh. *Q.*—What is the average size of a district in the province?

A.—On the average it has a population of about a million.

Q.—What is the income of an average District Board?

A.—From 2 to 5 lakhs of rupees.

Q.—And what would be the share of such a district from the tax on circumstances and property, taking the 7 lakhs for the whole province?

A.—There are 48 districts, it would be less than Rs. 15,000.

Q.—It would not in any case meet the demands of District Boards even for better communications?

A.—I don't think it would.

The President. Q—You talk of a tax on vehicles; would it be a toll?

A.—That has been suggested, but I do not see how you could levy a toll.

Q—I am not recommending the system, but a very large income is derived from tolls in Madras.

A—It may be possible, but no feasible method of collection has been suggested here.

Dr Paranjpye. Q—What about ferries?

A—We already have a tax on those

The Hon'ble Sardar Jogendra Singh Q—Have you considered the question of making railways contribute for maintaining feeder metalled roads?

A—That has been suggested, but not considered.

Q—Do you think it would be possible to obtain such a contribution from the railways?

A—I do not know.

The President Q—Are your takings from ferries earmarked for the construction of bridges?

A.—No

Q—Don't they tend to become a tax on transit?

A—They are a tax on transit to some extent.

Q—You take advantage of the river and levy a toll on ferries?

A—Yes The portion of the income which is a transit due is not very high and the rest is utilized to maintain the ferry.

Q—You said that you had considered levying a tax on vehicles; would there be any difficulty in collecting it?

A.—I think there would be

Q—In order to arrive at a comparison between the provinces of the extent of local taxation, we find very great difficulty in eliminating subsidies, direct and indirect, because the services performed in each province are different We suggest that we should take the total expenditure of all the services that are common and find out what percentage is borne to the total expenditure by the taxes levied by the local bodies so as to eliminate the subsidies Do you agree with this?

A.—I think it is a very good idea. I do not know any other way of doing it

Q.—We find there is so much indirect subsidy.

A.—Yes, there is a certain amount of it even in this province.

Dr. Paranjpye Q—You suggest that some of the work of the Boards should be taken away from them. What work do you mean?

A.—Chiefly public health work.

Q—What else would you take away? Vaccination?

A.—Possibly vaccination.

Q—What else?

A.—What is required in the rural areas in public health is edutation of the people in sanitary ideas.

Q—So that you will take away education from their hands?

A—I did not mean general education, but education in hygiene.

Q.—Do not the Boards do anything in that way?

A.—We have introduced a district health scheme in a few districts This scheme provides the necessary staff in the shape of district health officers

Dr. Hyder. *Q*—You are going to finance these schemes from provincial revenues?

A.—Yes In my opinion the schemes would work more efficiently and better if they were made provincial.

Q—Do the Boards go in for secondary education?

A.—With permission, but they only make a small contribution

Q.—What would you say to taking away education from the Boards and having managing bodies, *ad hoc*?

A—Education is a subject which I have never dealt with at all and I really do not know to what extent the education of the country is advanced by the boards, but I am inclined to agree that it would probably be a good thing.

Q—You don't think that your Council would help you in getting the District Boards to work better?

A—No The present tendency is to side with the Boards.

The President *Q*—Have you read the Bengal Retrenchment Committee's Report?

A—I have not

Q—Their proposition was that because the local bodies have a lot of room for taxation and the resources of the Government have been exhausted, a number of services should be transferred from the Government to the local bodies, and they should be asked to raise funds Your proposal is opposite to that?

A—It is

APPENDIX.

There is one matter on which I should like to add some remarks. It has been suggested that there should be an official staff for assessing direct taxes. The idea is attractive at first sight, but the trouble is that the staff would be dealing with a large number of very small incomes Even with an unpaid assessing agency, the net return from the tax on these small incomes is very low. The cost of a paid assessing agency would swallow up much of this small net return. To get over this, one would, I think, have to raise the lower limit of taxation, and I question whether a juster assessment of larger incomes would cover the consequent loss *plus* the cost of the assessing staff. Meanwhile, the difficulties of collection would remain as great as ever, and would be enhanced, were the rates on larger incomes raised in order to obtain a larger return. The Committee seemed to think it axiomatic that taxation of the poorer classes is a thing to be avoided I think the Committee would do well to consider whether the axiom really holds in this country where any surplus of income over expenditure tends in the poorer classes to be absorbed either by less work being done or by an increase in the population. Little of it goes to raise the standard of living To put the thing in another way, I do not think that there is any class which has any difficulty in maintaining its standard of living An indirect tax, which falls on all classes, may compel them to expend a little more of their surplus stores of energy, but there seems to me very little danger either of its depressing the standard of living or of its preventing a rise in that standard, for the desire to raise that standard is rarely present in any force. More generally, much of the taxable capacity of the people seems to lie in the surplus energy of the masses, which, unless put to it, they prefer not to spend A vague recognition of the correctness of this idea may lie at the root of much of the opposition to direct taxation. Direct taxes fall on those who are already expending much of their available energies. The real objection to local indirect taxation is to my mind not that it falls also on the poorer classes, but that it hinders trade and is usually attended by abuses Some evidence of the capacity of the people to fall back upon surplus energy is, perhaps, to be found in the remarkable ease with which the people has adjusted itself to the recent increase in the cost of living In the main that increase was due to the rise in the price of foodstuffs and the ability to meet the rise was derived ultimately from the higher prices obtained by agriculturists for their produce In fact the problem and its solution were in the main of a monetary nature, and to that extent have no bearing on the point which I am considering But I suspect that to some slight degree the adjustment was made by a greater output of energy, which in part is still maintained, and has so far resulted in some improvement of the standard of living. At any rate, I have the impression that the people are 'better off' than they were before the rise in the cost of living occurred

23rd February 1925.

Lucknow.

PRESENT.

Sir CHARLES TODHUNTER, K C S I, I C.S, President

Sir BIJAY CHAND MAHTAB, G C I E, K C S I, I O M, Maharajadhiraja Bahadur of Burdwan.

Sir PERCY THOMPSON, K B E, C B.

The Hon'ble Sardar JOGENDRA SINGH

Dr R P PARANJPYE

Dr L K HYDER, M L A

Sheikh HABIB ULLAH Sahib Bahadur and Seth BISHESHWAR DAYAL Sahib were examined on behalf of the British Indian Association, Oudh.

Written memorandum of the British Indian Association, Oudh.

Q 1—The statistics are neither adequate nor reliable

Q 3—Yes, we agree

Q 15—We agree to the plans mentioned in part (1) and also in part (4) if practicable

Q 16—No

Q 17—The Tenancy Law provides that no statutory rights will accrue on such lands until after the expiry of 14 years from the date of their first being brought under cultivation

Q 21—Indirect taxation should be regarded as voluntary in some cases

Q 22—Indirect taxation on luxuries is voluntary as the tax payer has the option to indulge in luxuries It is involuntary in the case of articles of necessity

Q 24.—We are opposed to a tax on railway tickets Special forms of entertainments may be taxed, such as hotel dances, theatres, etc

Q 27.—Yes, almost everybody already pays

Q 28—Yes, the question is one of limit.

Q 29—Direct tax in the case of representation

Q 34—No, we would follow the English practice.

Q 38—No, we are not in favour of the removal of the exemption We will make no distinction between the actual earning of a farmer and the income of a landlord

Q 39—The estimate is exaggerated, but there is no doubt that an enormous sum of several crores of rupees could be realised by introducing the double tax system which the suggestion of assessing tax on income derived from agriculture practically leads to.

Q 40—*Vide* answer to question No 39.

Q. 44.—Tax free securities should not be discouraged.

Q. 47.—We would favour the taxation on the basis of 3 years average

Q. 48.—The quotations mentioned contain useful and practical hints for the levy of taxation

Q. 49—Cartridges, chocolates, motor cars, coffee, perfumery, playing-cards, pleasure vessels, saccharine, and tobacco may conveniently be treated as a class of articles fit for excise duty.

Q. 50—The answer is in the affirmative A higher rate of tax should be fixed for better class of drinks and smokes

Q. 51—We quite agree with the opinion expressed in this extract.

Q. 52.—We accept the statement.

Q. 53—It is high.

Q 54—We would advocate an extension of direct sale of salt by Government.

Q. 56—We are in favour of protective duty. India as a whole should be the paramount factor in such cases.

Q 58.—We would advocate the enforcement of the sale of salt by weight.

Q 59—We are in favour of action on this line

Q 60—It is desirable and may be found practicable.

Q 61—No

Q. 63—We accept all of the statements to a very great degree.

Q 64—The policy falls short.

Q 65—It ought to be possible to have a uniformity of rate in various provinces

Q 68 -No.

Q. 71—Yes, there is sufficient reason.

Q 78—The tariff imposed for revenue purposes should be confined to a few and not to all

Q 82—Export duty of jute and lac will be desirable

Q 95—We would prefer to see a more general extension of the entertainments tax.

Q. 96—Rent is an income derived for the occupation of something by owners from occupants Tax is a compulsory contribution imposed for the purpose of carrying on works of public utility by a body or administration legally authorised to do so Rent may be used for private as well as for public purposes, while tax can only be used for public benefit

It comes under either category Where the Crown or Government gets the land revenue from the occupiers direct it is in the form of rent, but where the revenue is taken from the owner of the land it is a tax

Q. 97.—It is to a very great extent.

Q. 98.—We quite agree.

Q 99.—Yes, if a standard is fixed of the prices of various kinds of produce of land.

Q. 100.—Agricultural income should not be assessable to an income-tax.

Q 101.—We do not approve of this.

Q. 102—No.

Q. 104.—We would accept clause 4 as a fair method of arriving at the comparative incidence of land revenue in different provinces

Q. 105—Revenue be assessed on minerals to the same extent as on the agriculture.

Q. 109—The remark about the octroi duty is correct

But it is the only form of municipal tax which people do not very much feel, especially in small municipalities where there is no special trade or commerce. Experience shows that it is so difficult to be replaced by any direct taxation.

Q. 110—The reason is that however small the direct taxation is, it is very much felt in this country, and this is still operative in the case of small municipalities.

Q. 112—Yes. The owner is able to shift the burden of the tax on to the occupier.

Q. 121.—Yes, we agree.

Q 122.—Yes, these can be the means

Q. 123.—We would prefer the method suggested in paragraph 1 of question No. 122.

Q. 124.—We advocate no limitation

Q 125—Rates should be fixed having regard to the productive power of soils in the various localities.

Q 129.—Yes

Q 132—The rates should be such as to enable the local manufacture to sell cheaper than the imported.

Q 137—There should be no duty on inheritance or succession.

Sheikh Habib Ullah Sahib and Seth Bisheshwar Dayal Sahib gave oral evidence as follows :—

The President Q—You represent the British Indian Association, Oudh?

A—Yes

Q—Would you mind telling us the functions of that Association?

A—It is a very old Association originally started to support all movements of a public nature. The members are all landed proprietors and there is an Act under which each talukdar has to pay a certain percentage of his land revenue as a subscription of the Association It is a sort of local cess and the amount so collected is utilised for the maintenance of the Association and the Canning College here

The Maharajadhiraja Bahadur of Burdwan Q—One of the qualifications for the membership of the Association is that you must have landed property?

A—He must be a talukdar holding a *sanad* The zamindar is a landholder, whereas a talukdar is a land owner

Dr Hyder Q—Is that accepted by the zamindars of Agra?

A—Yes We are the landowners That is mentioned in the Act and that is according to the *sanad* which is given to us and which is a sort of charter.

The President Q—What is the rate of cess that you pay?

A—It is about ½ per cent on the land revenue for the British Indian Association

Q—What is the amount of your annual collection?

A—About Rs 70,000, I am not very accurate We pay ¾ per cent towards maintenance of the Canning College We will also send you a copy of the rules showing the aims and objects of our Association

Dr Paranjpye Q—Is every talukdar a member?

A—Yes He becomes a member because he has to pay the subscription under the Act Only the talukdars can be members But others also can be honorary and additional members For instance, Sir Harcourt Butler was one such member (Honorary)

The Maharajadhiraja Bahadur of Burdwan Q—Supposing a talukdar does not want to be a member?

A—But anyhow he has to pay the subscription We had an enactment passed recently in the Legislative Council to the effect that every talukdar has to pay a cess towards the maintenance of the Association and the College; and about the conditions and other matters connected with it, it is left to the Council of Talukdars

Dr Hyder Q—In answer to Q 1, you say that 'the statistics are neither adequate nor reliable', and in answer to Q 2 you say 'Yes, we agree.' Now I ask you whether these conclusions were ever used by your Association in their addresses presented to the different Governors and Viceroys whom they entertained, that is, the conclusions based on the different estimates made of the wealth of the country.

A—Oh, yes; we have represented times without number that the land revenue is excessive and that there should be a limit for it This matter was also taken up at our request by the Government of Sir Harcourt Butler, which appointed a committee to investigate into the question

Q—In answer to Q 15, you say that you are in favour of items (1) and (4). That is, you levy so much charge as would barely cover the cost of a scheme?

A—Yes, with interest

Q.—You also favour item No (4) Now suppose the tenants of the talukdars form themselves into co-operative societies Would you favour the creation of such co-operative irrigation societies among your tenants?

A—Certainly It is to their interest to have such societies

Q—And would you get rid of the canal patwari who, I understand, takes money to some extent?

A—There are such complaints in all departments and in all parts of the world It is not peculiar to India alone And if the tenants want to protect themselves against any such worries of this nature, of course we welcome it. They will be a sort of protective societies to further their own interests

The President Q—Have you any experience of handing over the distribution of canal water to a panchayat?

A—No

Q—Do you think that would work well?

A—It may be started as an experiment But I don't think that we can talk about it with any degree of certainty because we have just had this system of panchayats disposing of village disputes and it is still uncertain whether it will succeed

Dr Paranjpye Q—Does any of your members own any private irrigation works, *i e*, big tanks, for example, from which irrigation channels are taken?

A—We have tube wells

Q—At what rate will the proprietor charge the tenants for the use of the water?

A—He is entitled only to make an enhancement in rent proportionate to the cost of improvement at the rate of 6 per cent on the money invested

The President Q—Do you mean that he is barred by law from taking more than 6 per cent?

A—I think the law operates in this way that if anybody wants to make an enhancement in rent on that basis he has got to go to the court.

Dr. Paranjpye Q—What does a tube well cost?

A.—Roughly about Rs 5,000 or Rs 6,000 It all depends on the depth of the water.

Dr Hyder. Q—You say in reply to Q 15 that the State should charge only the bare cost of supplying the water Now, do you think that whenever a talukdar improves or constructs a well, he bases his rent merely on the cost of improving or constructing it?

A—Yes, on the basis of interest. Besides, in the case of Government it is a thing of mutual benefit The Government has the benefit of having no remission of rent and the landlord has the increased produce out of which the Government also will have a share when time comes

Dr. Paranjpye Q—The tube well also affords mutual benefit, both to the proprietor and the tenant.

A—Quite right But in the case of the landlord he is not quite free to increase the rent as much as he likes, because there are limitations

Q.—When a holding falls in after the death of a tenant, to what extent can you increase the rent?

A.—Unlimited.

Q.—Would you take an unlimited increase on account on the improvements?

A.—The whole question is this As regards enhancement that we claim on the basis of improvement, I have already said that we can claim 6 or 7 per cent on the amount invested As for our demanding further, we are subject to the scrutiny of the Courts

Q.—That is so during the tenancy of a particular individual When the tenancy falls in on the death of the individual, are you not allowed to increase the rent to any extent you like? If there is competition for land, would you not give it to the highest bidder?

A.—*I am sorry to say that practical experience is required to answer this.* We do not give land on the basis of competition Anybody who does do so ruins himself and ruins the tenantry. We want a lasting income from the villages If we begin to give the land on competition some land may fetch three times as much as it does now But the result will be that the tenant will leave the village in three years

Dr Hyder Q.—Where can he go? He can go to another village

A.—He can go to a factory or a railway

Q.—Are there any factories?

A.—Lots of them Go to a village and you will find several mills Labour is getting very dear now It is as 8 per day The tenant is not so happy as he used to be ten years ago He has got to pay for the labour and everything else

The Hon'ble Sardar Jogendra Singh Q.—Does not the Rent Act govern all increments?

A.—We can take enhancement after a death There is no limitation to that But if any zamindar tries to rack rent or create competition he is finished very soon He will not do it

Dr Hyder Q.—Were not the agrarian troubles in Oudh due to rack renting?

A.—That was due to excessive demands outside the rent They imposed what they called 'tax' in addition to the rent There was the fear of ejectment In those days they had the power to eject What they used to do is this. They would say 'if you don't pay us this money we will eject you' That was the cause for the trouble and that is gone now Besides there were also political reasons They were under some political influence

The Hon'ble Sardar Jogendra Singh Q.—Do you favour the fixing of water rate for a period of 30 years or revise it every 5 years?

A.—The canal like every other undertaking is subject to expenditure Suppose the cost of labour is increased and the upkeep of the canals becomes dearer, I think I would favour the idea of revision after a period of ten years

Q.—Can you give us an idea of what irrigation from a well costs?

A.—About Rs 4 8 0 per acre

Sir Percy Thompson Q.—Is that the total cost of taking the water?

A.—It is the cost of labour It does not include the upkeep of bullocks and other things

Q.—What will the total cost come to, including labour and the upkeep of bullocks? What is the amount which a prudent man will charge taking into account all the circumstances?

A.—I think we can add 50 per cent to the figure I have given

Q.—That is about Rs 7

A.—Yes; it also depends upon the locality Sometimes it is difficult to get sufficient water

Q.—Assuming it to be under the most favourable conditions. You say it is Rs 7 I think the charge for Government water for irrigating, say a sugarcane crop, will be more than Rs 7 Why should people then take Government water where they can get well water so cheap?

A.—You can't have wells everywhere Another chief reason is that it requires capital to construct a well.

Dr. Hyder. Q—Which is better, well irrigation or canal irrigation?

A.—Certainly well irrigation is by far the better. The canal sometimes brings a lot of silt and sand which deteriorates the land.

Q—Does not the silt fertilise the land?

A.—Sometimes it does. But generally you don't get good silt and a lot of sand is also brought.

Q.—In answer to Q. 16 you say that the State is not entitled to take a portion of the increase in the value due to irrigation Suppose there takes place an increase in value for which the parties concerned do nothing The scheme is undertaken at the expense of the general taxpayer and it benefits certain classes who do nothing whatever to earn the increase Do you not think it is equitable that the general tax-payer should get back a portion of the increase that takes place in the value of the land?

A—Does he not get the interest?

Q—The scheme may simply pay its way Don't you want to take more in proportion to the increase in value?

A—You mean a betterment tax?

Q—Yes

A—How can you do that? All the land is subject to temporary settlement Supposing the land is brought under irrigation for the first time Irrigation is not the only factor in improvement; there are lots of other things Other improvements will become necessary and the tenant has got to spend money on them, and whatever increase is got eventually through the irrigation, something is taken by means of enhanced land revenue

Q—What are the other improvements which are made by the cultivator?

A—I believe you have seen fields which are irrigated and fields which are not irrigated In the irrigated fields they have got to keep a certain level so that water might run from one field to another

Dr Paranjpye Q—You mean to say that the portion of the increase has to be ascribed to the levelling of the ground?

A—I say the tenant has to undergo much trouble I don't deny that irrigation does better the land, but all that I say is that the improvement that he gets is only temporary The improvement which is made in the land eventually goes to the Government and the land revenue is increased Besides, development of agriculture is one of the duties of the State What you suggest is a sort of tax on the valuation and whenever the valuation is increased you want to increase the tax This is against all principles

Q—It is not against all principles, because nothing has been done by the landed classes to earn this increase. It has been done by the expenditure of the State's money and the State is entitled to get its share in the shape of an increase in the land revenue

The Hon'ble Sardar Jogendra Singh. Q—Are not the majority of the general taxpayers agriculturists?

A—Yes.

Q—Is not the greater portion of the capital paid by the agriculturists?

A.—Yes

Sir Percy Thompson Q—You say that capital is provided by the agriculturists who form the majority of the general taxpayers But there are two classes of agriculturists—those who get the benefit of the water and those who do not get the benefit of the water Your argument comes to this, that those who do not take water should pay for those who take water. Is it right that the general taxpayer who does not get water should pay the capital invested and those special cultivators who reap the benefit of that water should get a greater return without additional payment?

A.—What I understand is this The tenant gets the direct benefit out of it. The land owner is the person who has contributed to the funds in putting up the canal and all that He should also get the benefit So let both get the benefit.

Q—A point was made that the funds for providing these irrigation works were paid by the general taxpayer and the mass of the taxpayers are agriculturists Therefore it is but fair that the agriculturists should put into their own pockets the benefits derived from these irrigation works. The question I put to you is this. There are two classes of agriculturists who form the body of the taxpayers. There are a number of agriculturists who happen to be favourably placed and who get the benefit of this water. There are others who do not get the benefit of this water Is it right that the first set of agriculturists who get the benefit of the water should be able to get the benefit of the whole increment with the other agriculturists who do not get the benefit of the water have to pay the piper?

A.—They have also to pay water charges.

Q—The productive capacity of the land goes up

A.—As I said it is but temporary We are subjected to temporary settlements. These settlements can be made progressive.

Q—If the income on a particular piece of land is Rs. 100, on the basis of half the assets the land revenue will be Rs 50 Supposing as a result of the irrigation scheme the value of the yield goes up from Rs 100 to Rs. 300 after paying the fixed water charges, on the basis of half the assets Government will take, instead of Rs 50 [illegible] d between the landowner and the G [illegible] t it is not fair But what I wish to [illegible] the money for the irrigation works [illegible] asis alone the landlord is entitled to pocket the whole

A—Taking from a commercial point of view the system may be correct. But the whole system is not based on that

The Hon'ble Sardar Jogendra Singh *Q*—In really well favoured areas where rainfall is good you do not need any irrigation at all They have been protesting against the Sarda canal So the question of the increase of land revenue does not at all arise In other cases people provide money for irrigation purposes and equalise the benefit

A.—That is another way of looking at it

Dr Hyder *Q*—Will you please explain your answer to question 17? You say indirect taxation should be regarded as voluntary I ask you to state exactly the items you regard as voluntary. If your Association gives an entertainment, fireworks, illumination, etc, are they to be regarded as voluntary?

A—There is option

Q—You would not regard a tax on the bread of the poor as voluntary?

A—It is a matter of necessity

Q—You would make that distinction?

A—Yes

The President *Q*.—Would you regard drink as voluntary or compulsory?

A—It is a luxury tax, I am afraid

Q—Opium?

A—I think it is a luxury

Q—*Ganja* and *bhang*?

A.—They are all luxuries

Q.—Betel?

A—Everything.

Q—Litigation?

A—Well that cannot be luxury, it is a tax on an act

Dr. Hyder *Q*—Is tobacco a luxury to the peasant?

A.—It is not necessary

Q—Do peasants chew tobacco?

A—They can do without it Those who can afford it can use it It is a luxury.

Q—You want hotels, dances, theatres, etc, to be taxed. Don't you think that will fall on one class of people?

A.—In cases where they don't issue tickets, I would not charge.

Q—Taxation on one particular class, whether European or Indian, is not very desirable.

A.—The richer class may be taxed and not the poorer classes If the poorer classes are taxed further they will be put to very great hardship. We have in mind entertainments which are mere enjoyments; theatres being an instance in point.

The President Q.—Not of course the social functions and private functions.

A—I mean functions for which there is a charge.

Q—Would you tax everybody who is registered as a voter?

A—One who pays tax ought to be registered as voter.

Q.—Not the other way?

A.—It will be the same. We want property franchise We do not want manhood franchise

Dr Paranjpye. Q—Would you not allow representation to a man who pays an indirect tax to Government?

A—Representation should always be based on direct taxation

The President Q—Do you count land revenue as a tax?

A.—Yes, it is If it is not, what else is it?

Dr. Hyder Q—What is the qualification for a tenant in order to enable him to vote?

A—A certain amount of money Most probably Rs 50 for the provincial Council

Q—Don't you think that is rather a high limit?

A—Well, it may be found high As the present franchise has recently been introduced it may be too early to change it.

The President Q—Does the tenant pay land tax?

A—Yes

Q—Is it not the landlord?

A—The basis is the same. The tenant is also a voter.

Q.—He does not pay tax

A—His franchise is based on the rent he pays

Dr Paranjpye. Q—He does not pay to the State and so he should not have representation according to your theory

A.—Why not? If you define tax as a contribution that is paid to Government, then he will come in After all, the burden falls on him.

Q—In indirect taxation is it also the same thing?

A.—But there you have many practical difficulties and there will be much uncertainty. In this case there will be no difficulty in ascertaining the tax.

Sir Percy Thompson. Q—What are your reasons for preferring the English system of income-tax?

A.—We recommend the English system because there is the system of abatements there. We would like that system introduced here also. Otherwise we are not keen about that

Q—Is it not reducing the rate?

A.—The rate will not depend on this only. It will depend upon the national wealth of the country.

Q—If your rates are graduated, being low in the case of the small incomes and high in the case of the high incomes, it produces very much the same effect as giving an abatement and charging a standard rate.

A.—Don't you think then that between two people with equal incomes the one who has to support a large family would feel the strain greater than the one who has to support a lesser number of people?

Q.—There are two systems; one in England and another in India. To charge a small rate for the small income and a high rate for a higher income as you do in India, does it not produce the same effect as giving abatements in England in the case of small incomes?

A.—That is with regard to the poor and the rich class. Taking men of equal means if you introduce abatements it will be more equitable.

Q.—What do you mean by abatements? Is it an allowance for family expenses?

A.—Yes.

Q.—How far would you proceed?

A.—I cannot give figures. I leave that to you.

Q.—Practically everybody in India is married.

A.—Yes.

Q.—In England quite a large number of people who are not married pay income-tax.

A.—It is not necessary that you follow exactly the same system here. You can introduce it with the necessary changes to suit the local conditions.

Q.—How would you work it?

A.—I cannot state any exact method.

Q.—Would you give allowance for all dependants?

A.—Yes.

Q.—Even though he has neither wife nor children, an allowance should be given.

A.—There will, of course, be some difficulty. I am not keen about it. If it is practicable, you may follow it with some modifications as it will be very desirable.

Q.—Are you for exemption of agricultural incomes?

A.—Yes. If you take the view that land revenue is a tax I agree with the case for exemption of agricultural incomes.

Q.—Are you quite sure that land revenue is not rent?

A.—It is a tax surely. I might refer to you the arguments advanced by Baden Powell which are quite sound. Economists confuse this point. In England there is no system of land revenue. There is the system of land valuation.

Q.—I do not agree with your definition of a tax. Would you call the rate raised for the purpose of supplying water a tax?

A.—Certainly it is water rate.

Q.—You distinguish landowners and landholders. I should like to know under what category the representatives of the British Indian Association come?

A.—That is the crux of the whole question. If you treat us as landowners—absolute proprietors of land—the payment is a tax.

Q.—Is your proprietorship on condition of your paying land revenue?

A.—No.

Q.—What will happen to you if you don't pay land revenue?

A.—The point is this. The condition that you must pay land revenue does not take away the proprietorship.

Q.—Is not your right of ownership conditional on the payment of land revenue?

A.—That does not take away the proprietary right in the least.

Q.—It is true it carries with it certain rights, it does not carry unlimited rights. Unless you have got unconditional proprietary right, it is subject to the payment of land revenue.

A.—May I know a case where a person can call himself absolute proprietor of anything?

Q.—In the English system the owner of land is subject to no condition. Is not the land tax a payment for the use of a valuable asset?

A.—We can use words metaphorically. But the whole thing is this. From your point of view we have got the use of this land and we have to pay the heaviest return that no commercial concern pays to Governments.

Dr. Paranjpye Q—Do you wish to differentiate your position as landowners so far as the payment of income tax or profits of agricultural income is concerned?

A—Certainly not.

Q.—Supposing your claim was accepted we have to make a distinction between landowners and landholders

A—I do not want to make a distinction We have put forward our case. Let them put forward their case

Q—In the case of the ordinary landholders, would it be right to tax the profits of agriculture?

A—No I do not think The landowner has invested capital and pays heavily on that return The value of land is the dearest of any thing in India You can invest in securities at 5½ and 6 per cent., but the investment in land brings in only 3½ per cent

The President Q—Assuming that land revenue is a tax, does it comply with the principles of taxation? For instance, one of the modern principles is that a tax must be progressive Do you compare yourself with a person who has invested money in a commercial undertaking? If so, they are assessed according to their income

A—That is done here also, by way of revision of settlements

Q—Income tax is progressive in the sense that if your income is above Rs 5,000 you are charged a particular rate and so on.

A—That is a matter of detail

Q—Would you not object to land revenue being made progressive?

A—It is made progressive

Q—Would you like the owner of a large area to pay a higher percentage than the owner of a small area?

A—No, no

Q—Then it fails to comply with the test of taxation

A—The maximum and minimum is not there, but there is the average.

Q—In any other direct tax the poorest man pays a very low rate. The poorest man pays almost nothing The small man pays a low rate and the bigger man pays a higher rate

A—As things are at present we pay nearly 80 per cent of the revenue of the province out of land Yet what is our condition as landlords? I am speaking from a practical point of view 60 to 70 per cent. are indebted If you tax them further you will stop the industrial development of the country Even as we are, we cannot improve ourselves If we are taxed, we are doomed for ever

Q.—I am only asking you to apply the canons of taxation

A.—Canons of taxation may not apply on all fours, but you have to take things as they are

Q—If you agree that land revenue is a tax, it logically follows that you must apply the canons of taxation.

A—We can as well apply certain modifications to the canons as and when we think necessary.

Sir Percy Thompson Q—If 70 per cent of the landlords are indebted, I am afraid that bankruptcy would come to their rescue I do not see any point in your argument

A.—My argument is this Under the present system of land revenue without an additional tax the condition of the landowners is something terrible

Q—If their condition is terrible income tax won't affect them, because their income will be small.

A—A man's income may be 3 lakhs but may have a debt of 10 lakhs

Q—Why should he incur debt?

A—I am speaking of things as they are.

Q—You don't exclude a tax because a man is extravagant. If landowners have been extravagant in the past that is no reason why their tax should be reduced in the present.

A.—I am not talking of reduction I am against further increase.

Dr. Paranjpye. *Q*—Is that a case for exempting that class from extra taxes?

A.—As we are, we have got a lot to do still in developing land. If we are further taxed, the capital would be killed

Q—So long as you had ample means which, by your own showing, you ought to have been able to use for the development of industry, you were not able to do it Those means have now frittered away and still you would have the same duties

A.—These things take time and people have to gain experience.

The Hon'ble Sardar Jogendra Singh. *Q*—Don't you wish really to be brought on to the same level as other people who are taxed? For instance, income-tax is graduated up to a certain limit, say 6 pies, and if you are paying 8 annas in the rupee, won't you urge a reduction till you reach the same level?

A.—Yes.

The President *Q*—You would accept a system of graduation of land revenue in accordance with the size of the income?

A.—That is what it is now All our settlements are made on that basis

Q—I understood you to say that you were quite prepared for a system of taxation similar to the income-tax

A.—If we are exempted from land revenue, we have no objection to an income-tax on agriculture

Q—You have no objection to land revenue being graduated?

A—I do not think it would be practicable

Q—I am on the point whether, as the present land revenue is flat rate for both the big and small man, it is not contrary to the canons of taxation Are you prepared to make the big man pay more?

The Maharajadhiraja Bahadur of Burdwan *Q*—I take it you are not in favour of assessing income tax on agricultural incomes

A—We are not

Q—That being so, whether land revenue is a tax or a rent, or something between a tax and a rent, don't you think that the percentage of land revenue which you now pay is quite sufficient and does not justify an income-tax being levied on your agricultural income?

A—There is no justification for an income-tax being levied on agricultural incomes

Q—In other words, whether the land revenue system violates the canons of taxation or not, any tax on your agricultural income would be unjustifiable.

A—Absolutely

The President. *Q*—At the same time, there remains in your hands an enormous taxable surplus which if subjected to income-tax, would yield several crores of rupees a year

A—I think that every income tax payer has got that surplus if you tax him doubly Suppose a company makes a profit of Rs 1,00,000 *after paying income tax*, if you re tax that profit again, it would yield several crores.

Q—I do not think it will yield several crores

A—Taking all provinces together, I think it would certainly yield several crores of rupees

The Maharajadhiraja Bahadur of Burdwan—I cannot help thinking that your answer is rather unfortunate, because it gives one the idea that you are in favour of double taxation If you had given your arguments against the assessment of a tax on agricultural incomes, it would have been clearer.

Dr. Hyder *Q*—In reply to Q 44, you say that tax-free securities should not be discouraged Do you think that sound?

A.—Yes

Q—Generally these securities are held by people who are rich. If they are made free, somebody else would have to find the money

A—These income tax free securities are issued by Government for starting some undertaking for the general benefit of the country, and if there is no such temptation, I don't think the loans would be fully raised

Q—You had a loan in the United Provinces What were the proceeds utilized for?

A.—For canal works and the Lucknow University.

The President Q—In your reply to Q 49, you have recommended an excise duty on various articles

A—We have recommended an excise duty only on those articles used by the richer classes We have left out those used by the poorer classes and those required for the industrial development of the country

Q—Cartridges are mostly taxed on entry into the country.

A—Even if they are a little further taxed, I do not think the taxpayer would feel it very much

Q—Are they not already fairly expensive?

A—A few cartridges would be sufficient to kill a big animal

Dr Hyder Q—Are chocolates consumed in large quantities by Indians? Is not that a case of class taxation? They are consumed by Europeans

A—They are consumed by Indians also It is not a question of Indians or Europeans here What we want is that such taxes as only affect the richer classes should be imposed, because the poorer classes are already heavily taxed.

The President Q—Didn't you have a special tax on motor-cars in the United Provinces?

A—We had

Q—Your Council were not anxious to continue it?

A—That was the view of the majority of members of the Council

Q—Don't they already pay a 30 per cent customs duty?

A—It is only optional to levy the tax

Q—You would levy a tax on coffee It would be rather difficult to have an Excise officer for the several coffee estates.

A.—I do not know about the details

Q—Playing-cards are mostly imported and taxed pretty heavily.

A—Here the question is only an excise duty

Q—Would it not be better to increase the customs duty instead of adding on an excise?

A—That will be increasing the central revenues. If an excise duty is imposed, the provincial revenue would benefit

Q—Pleasure-vessels would not affect the United Provinces very much.

A.—No

Q—Saccharine is already taxed.

A.—I do not think the use of saccharine is very desirable and if an excise duty is imposed, it would be discouraging the use of this article.

Q—You are in favour of the taxation of tobacco?

A—It is found that any further taxes are necessary, tobacco can be taxed; though it is an article in very common use, it is not an absolute necessity

Q—Have you any idea as to how you would levy a tax on tobacco?

A—The best system I can think of is a duty on acreage

Q—Would not an acreage duty be a breach of your *sanad*?

A.—There is no mention in the *sanad* of tobacco It is not a part of the ordinary produce.

Q—Would not an acreage duty on tobacco operate as an additional tax on land?

A.—It will be passed on to the consumer.

Q—Do you find that the yield of tobacco on different classes of land varies very greatly?

A.—It does vary to the same extent as other agricultural produce You have to ascertain the quality and quantity of the yield from particular tracts or plots and you can base your tax on that

Q—Would you have a graduated scale of duties?

A.—Yes

Q—You would advocate an extension of direct sale of salt by Government Could you let us know how you would do it?

A—There should be Government depôts for sale of salt, doing away with the middleman

Q—Would not that be very expensive?

A—I think it will quite repay the expenditure

Q—Does the middleman in your experience make an undue profit?

A.—He does

Q—Could you give us any details such as retail price?

A—We would advocate depôts only in the rural areas, not in the urban ones

Q—Salt is sold by weight in this part of the country?

A—Yes

Q—Can you tell us what the prices are in the mofussil?

A.—The prices are fluctuating

Dr. Hyder Q—How much would you get for an anna in a distant village in your district?

A.—About half a seer I think it is sold at 9 seers to the rupee

The President Q—Enquiries made by the Central Board of Revenue tend to show that no undue profit is being made by the middlemen and a very strong case would have to be made out to prove that they are getting such large profits as to justify Government intervention

A—The profits are not undue in the sense that the price is not keenly felt

Q—You would favour a protective duty in order to make India self-supporting Would you not mind if Bengal had to pay a little more?

A—The interests of the whole country should outweigh the interests of one province

Q—You do not consider prohibition of drink at all improbable?

A—I do not think so

Q—Your answer to Q 64 Would you suggest what further steps you would like to take?

A.—There is still room for increasing the duties

Q—Don't you find that there is a great extension of illicit consumption in your province?

A—That is due mostly to the recent departmental arrangements Excise has now become a transferred subject and I do not think there is so much police surveillance as before

Q—You attribute the growth of illicit consumption to lack of control?

A.—That is one factor

Q—What are the others?

A.—If you put on a heavy duty, that would be more control

Q—Is there not a reduction in the number of shops?

A.—Yes.

Q—What have you to say about the new system of sale, the system under which the duty increases as issues increase?

A—There is no harm in the system

Q—Does the new system tend to corruption of the staff?

A—It is very difficult to say Like other departments, the Excise Department is not exempt from corruption

Q.—You would like to see a uniformity of rates in all provinces.

A.—Yes, if possible; that would check illicit trade.

Q.—Your answer to Q. 71 Is there any reason for a variety of rates in the case of *ganja*?

A.—In my reply I am taking the case of *ganja*, *charas* and *bhang* together.

Q.—*Bhang* is chiefly a matter for this province Does it produce intoxication?

A.—Yes, it does.

Q.—Much?

A.—I have no experience.

Q.—Have you seen many people intoxicated as a result of using *bhang*?

A.—Not as much as wine does, but it surely does intoxicate

Q.—We are constantly told that it is merely a cooling drink for the hot weather.

A.—I can't say

Q.—Do you know that this province consumes more than the rest of India put together?

A.—Yes.

Q.—You advocate an export duty on jute and lac.

A.—Yes, for the reason that a duty on jute and lac would give us more money. India is the chief supplier of these articles to foreign countries and if the export is increased, we would get more money from outside instead of having a drain on the country itself.

Dr. Hyder Q.—The foreign countries might invent substitutes.

A.—When the time comes for that, we can adjust in some way or other.

Q.—To whom will you give the proceeds?

A.—To the Central Government

The President Q.—Your reply to Q 98 Would you make your reply clear?

A.—We endorse the first two criticisms mentioned in the question, *viz.*: "the land revenue assessment ignores 'the ability to pay' of the subject" and "except where there is a system of permanent settlement in vogue, the assessments lack the 'element of certainty'" The last two we do not endorse

Q.—Would you like to substitute a land tax on modern lines?

A.—If the present system of revenue is done away with, I think we should be glad to pay a tax on that system.

Q.—That is, to pay a tax on capital value graded according to the size Would you prefer that?

A.—Yes

Q.—Why?

A.—Because we believe land revenue is the heaviest tax going

Q.—Have you compared it at all with the rates prevalent in other countries?

Dr. Hyder.—In New Zealand an estate worth Rs 15,000 pays about, I think, from Rs 200 to Rs 300 every year.

The President.—In Australia an estate leased from Government pays a Commonwealth land tax, a State land tax, a Commonwealth income tax and a State income tax

A.—But I believe there is some fallacy in the valuation.

Q.—In the valuation of the Settlement Officer?

A.—In the valuation of land there as compared with the valuation of land in India. There are very few people there and there is more land available which is therefore valued cheaply. I believe you can buy a thousand acres for a small sum. The value of land in Australia is nothing like what it is in India, where every inch is under cultivation.

Q.—You don't think that a change over to their system would cause any commotion in the country?

A.—That would depend on what the land tax is fixed at.

Q.—You think that it would be preferable?

A.—I fancy we are paying about 45 per cent in land revenue *plus* 10 per cent in local rates. I do not think income-tax, even in very big estates, would come to anything more than 30 per cent

Q.—Have you any special experience of local taxation?

A.—I think we all pay local taxation

Q.—Take for instance—octroi There again it is the poor man who pays more than the rich man?

A.—I think octroi is an indirect tax

Q.—Don't you think that the rich man ought to pay more towards local taxation? Should he not pay house tax or profession tax or some other direct tax?

A.—I think this should be left for the decision of the local bodies

Q.—Are the local bodies in this part of the country willing to impose sufficient taxation for the needs of the locality?

A.—I am afraid not

Q.—Can you then leave these powers to them?

A.—I think they will learn gradually as responsibility increases

Q.—Our function is to advise on the best methods of getting the local bodies to impose direct taxes

A.—The statement that octroi is an indirect tax and falls heavily on the poor people is right But that also depends on many other things The rich man will have to pay more because he will have to get more things than the poor man I mean the rich man will get more luxurious things

Dr Hyder *Q.*—Is it not a fact that the rich man will spend a negligible quantity of his income on the ordinary articles, whereas the poor man might have to spend more? The rich and the poor have to pay the same one rupee, but the rupee of the poor man has got much greater value to him than the rich man's

A.—How do you say the same proportion I say it is quite possible that the rich man may be found to pay more Have you got any statistics to prove your point?

Q.—They do not exempt any necessities?

A.—No You are not exempting salt though it is of absolute necessity

The President *Q.*—Is it not a fact that the bulk of the revenue is derived from octroi?

A.—Well, it will depend upon the local conditions and octroi may also be one of the taxes People do not object to octroi They do not feel it

Dr Paranjpye *Q.*—Because the poor man is not a member of the municipality?

A.—I think they are now

The President *Q.*—You disapprove of any duty on inheritance or succession?

A.—I think we are totally opposed to it We think it is the most horrible tax that has ever been proposed

Dr Hyder. *Q.*—Do you favour equality of incomes or inequality of incomes. Do you think that men should possess equal incomes?

A.—I think it is impossible

Dr Paranjpye *Q.*—Equal opportunities at any rate?

A.—You cannot give that , It is impracticable

Dr Hyder *Q.*—But these horrible duties are imposed in other countries.

A.—But the conditions there are quite different. For instance, take the valuation of the property; it is much easier in England than in India where we have the *purdah* system It is very easy for the lady in the house to hide the jewels and other movable property Is there any method by means of which you can check the evasion?

Q.—But land, houses or furniture cannot escape from the tax?

A.—But I would like to ask you whether you propose to take this duty in cash or in kind

Q.—Certainly we would take it in cash.

A.—Without further argument we would say it is the most impossible duty that we can ever think of We would very strongly oppose its introduction

The President Q.—Do you accept the principle that taxation should be regulated with reference to the ability to pay?

A.—That ought to be so, but at present land revenue is not like that

Q.—You oppose any tax which is progressive?

A.—I must oppose because it is not possible

Q.—Your argument shows that you are opposed to any tax which would fall on the richer people rather than on the poor people?

A.—I have not said so

Q.—But then you object to anything in the nature of progression?

A.—My complaint is that you have not taken into consideration all the difficulties attached to this kind of taxation For instance, if you say that succession duty is successful in England and other countries, there you have not to spend anything after the death of a man, whereas in India it is quite different. A man has to spend a lot of money after the death of his parents, in performing the ceremonies, etc

Q.—Might I put it in this way? Indirect taxation necessarily falls more heavily on the poor people and direct taxation falls on the richer people Is there any direct tax now which you approve of?

A.—There are many direct taxes of which we can approve

Q.—Would you tell us?

A.—For instance, income tax is a direct tax and there are many other taxes

Q.—Would you enumerate them?

A.—I tell you that you are talking of a tax on deaths and I am proposing a tax on marriages That is my personal opinion (not shared by my colleague Seth Sahib)

Dr. Hyder Q.—Would you graduate that in the case of the richer people? The poor man pays one rupee as registration fee and the rich man pays Rs. 50?

A.—That I won't do

Q.—Are there any other direct taxes?

A.—There is the vehicle tax Then there is land revenue

Q.—But land revenue is not progressive?

A.—Here the question is about direct tax

Q.—You don't like house tax?

A.—Where the land is taxed, you cannot tax the house again.

Q.—You don't like profession tax?

A.—No, we don't

Q.—You don't like circumstances and property tax?

A.—I think these are all taxes to be kept in reserve just to be used in times of need.

24th February 1925.

Lucknow.

PRESENT :

Sir CHARLES TODHUNTER, K C S I, I C S., President

Sir BIJAY CHAND MAHTAB, G C I E, K C S I, I O M, Maharajadhiraja Bahadur of Burdwan

Sir PERCY THOMPSON, K B.E, C B

The Hon'ble Sardar JOGENDRA SINGH

Dr R P PARANJPYE

Dr. L. K HYDER, M L A

Mr. S. H. FREMANTLE, C.S.I., C.I.E., I.C.S., Senior Member, Board of Revenue, United Provinces, was examined.

Written memorandum of Mr. Fremantle.

Q 15—In my opinion the charge for water supplied by the canals is rather less than should be taken It was originally fixed on the basis of what cultivators could be expected to pay without complaint and has been subsequently raised on account of (1) increase of prices of produce and (2) the increased expenses of working.

I do not think that any of the plans suggested are satisfactory If the charge were by volume it would be ideal, but I believe the difficulties are insuperable and in any case some principle is required to determine the amount of the charge

In my opinion the cost of well irrigation in the locality for each crop should be estimated, and the charge by volume or by area irrigated should be a proportion of this, say, half It would be necessary to take this low proportion in order to cover failure to supply water at the times when it may be most required.

Q 16—At present since the land revenue is half the rental assets, Government takes a fair share of the increased produce No change seems to be required

Q 17—According to the Agra Tenancy Act the land holder can sue for enhancement on the ground that the produce has been increased by works not undertaken at the expense of the cultivator This provision seems to fit in with our land revenue system

Q 38—I am not in favour of assessing income tax on agricultural incomes. It is proposed at present to reduce the proportion of assets taken as land revenue and if what is given with one hand is taken away with the other, very natural discontent would result.

Q 40.—Incomes between Rs. 1,000 and Rs. 2,000 were exempted from income-tax simply because of the difficulty of assessment, but by the introduction of a more efficient system of assessment it is now possible to make a fair assessment on such incomes I think that they should be taxed.

Q 89.—I do not think that the income from court-fees and stamps on judicial proceedings should be so limited as merely to pay for the cost of the courts. I see no harm in discouraging litigation by putting the court-fees at a higher figure than is justified by the expenditure on courts and I think that, if court-fees were so limited, it would merely be putting more money into the pockets of Vakils.

Q 96—Land revenue undoubtedly was originally the Government share of the produce of land and therefore a rent, whether it is now a tax or a rent is a matter of mere academic interest.

Q. 97—The prosperity of the great mass of cultivators is not affected by the land revenue Rents are as high in rent-free and permanently settled estates as in those which are temporarily-settled.

Q 98—It is true that the land revenue assessment to a great extent ignores the ability to pay of the subject, but this is the case with all taxes except such as are graduated The assessments are fixed for 30 years and are more certain than the income-tax The time of payment of rent is not inconvenient for the cultivator nor the time of the payment of revenue for the landholder, and the system does not lead to official tyranny and extortion. Nor is the cost of collection anything like 20 per cent.

Q 99.—*Temporary settlements are based on rents and not on prices. It is not* understood how this can lead to inequality.

Q 100—I do not think that the exemption of incomes below Rs 2,000 or Rs 1,000 from land revenue assessment would bring very much relief to small land holders The prime cause of difficulty in payment is sub-division of land and the exemption of small incomes would rather stimulate this than otherwise so that no permanent relief would result.

Q. 101.—I do not think that it is desirable to impose a tax on mutations. Unless it was so high as to be prohibitive it would have little effect

Q. 102—I do not approve of this idea which would cause very great discontent and would be impracticable in the case of large irrigation schemes.

Q 103—The principle of the assessment of land revenue on land occupied by buildings and compounds in these provinces is that the land which was assessed as agricultural before being occupied by buildings still continues to be assessed at its agricultural value, the cause being that there seems no reason why the Government revenue should suffer because a land holder by selling or leasing his land for building increases his income It is doubtful whether there is any good cause for a change of policy.

Q. 104—I do not think it practicable to lay down any universal basis for comparing the incidence of the land revenue in different provinces. Each of the methods suggested have their merits No 4 seems to be the best in all provinces where the rental value can be estimated.

Q 105—According to law, minerals in temporarily-settled estates are the property of Government but in practice the land holder gets the benefit Further information on this point can be supplied if it would be useful

---

Mr. Fremantle gave oral evidence as follows:—

Dr. Hyder. Q—In answer to question No 15, you say that the charge for water "has been subsequently raised on account of (1) the increase of the prices of produce and (2) the increased expenses of working". May I ask you if you can tell us from your own experience whether there has been any increase in produce?

A.—I do not think there has been any general increase in produce, but in particular places under particular conditions, there has been

Q.—You refer to the increased expenses of working Has there been any increase in the cost of cultivation? I am putting it to you from the point of view of the cultivator. I want to know whether he has now to pay more for the seeds, manure, bullocks, etc.

A.—But these expenses have not gone up in greater ratio than the price of the produce

Q.—Then you say that the charge for water by volume is better—but the difficulties in the way are very great

A.—There are technical difficulties You cannot possibly measure the amount of water that goes to any particular field One *kulaba* takes in a large number of fields

Q.—In Italy they are able to measure the water.

A.—Of course if it is practicable it is highly desirable, because there is no doubt that a large amount of water is wasted Not only is there waste of water, but there is a fall in produce where the irrigation has been too lavish

Q.—Then you say that you would base your water rates on the principle of estimating the cost of irrigation by means of wells and taking half of it

A.—Yes, I would suggest that But I am not definite about the proportion

Q.—But it has been brought to our notice in the evidence of a certain gentleman that if the cultivators made use of tube wells then the charges which they would have to incur will be much smaller than the charges if they take canal water

A.—I have not worked it out. At present tube wells have not been universally successful There is the risk of the tube well failing.

Q.—Suppose eventually it becomes successful, and it does not cost as much for the cultivator to take water from the tube wells as it would if he took water from the irrigation canals Don't you think that there is a limit to the rates imposed by Government for taking the canal water, on account of the competition from tube wells or other devices?

A.—Do you mean to say that the rate cannot be too high because it is kept down by competition?

Q.—Yes, and here is the competition from tube wells

A.—I only suggest half in order to leave a very good margin After all, if you have a well you can get the water exactly when you like and as much as you like, whereas in the case of canals, you have to depend on what the canal authorities give Also sometimes you don't get water in the canals For instance, this year they did not get any water in the Ganges canal till about the 4th January.

Sir Percy Thompson Q.—We were told that the rate for irrigating a sugarcane crop by means of tube wells would be Rs 6 per acre Don't you think that the figure is very low?

A.—I saw a tube well the day before yesterday and I was told that it cost Rs 3,000 and it was going to irrigate 15 acres That certainly would come to more than Rs 6 per acre

The President Q.—You say that it is necessary to have this low proportion of half in order to meet any contingencies Don't you contemplate any remission?

A.—If water is supplied at any time during the season the crop has to pay, unless the crop is an absolute failure

Q.—We have been told that last year you lost 34 lakhs Was not that due to remission?

A.—That was because they did not take the water owing to abundant rain

Q.—Have you not got a system under which you guarantee to supply water from a canal at a fixed rate and the raiyat undertakes to take the water at that rate? That is, he will have to pay whether he takes the water or not

A.—We have not got any system of that kind.

Q—Then there is the system in Madras where you have got the *ayacut.* A particular area is demarcated as commanded and it is charged at wet rate.

A.—We are trying to introduce some such system in Bundelkhand.

Q—What are the objections to it?

A.—In good years when there is plenty of rain they will say "we do not want your water, why should we pay". I think the system is a sound one But I do not think it can be applied to the big canals, because they cannot guarantee water at all times.

Q—The guarantee involves remission?

A—Yes, naturally.

Q—In reply to question No. 16, you say "the land revenue is half the rental assets".

A.—Of course it is not exactly half. In some cases it goes to half and in many instances it is a good deal less. In the majority of districts it is normally 46 and 47 per cent

Q—At the same time the capital value of land increases enormously?

A.—Yes; it is always increasing

Q—Do you think you have a right to take a share of the increased capital value?

A.—What I mean is that Government takes a proportion of the increase in the increased annual revenue

Q.—But at the same time this action of the Government has given the land owner a large unearned increment in the capital value of the land and it has been suggested that where this happens, you should take a proportion of that increment in the shape of a betterment tax.

A—That would apply also when a railway was introduced. The land increases in value

Q—It is not such a direct and large increase as when you bring the land under irrigation.

A.—I think the principle is the same

Sir Percy Thompson. *Q.*—Does it not come to this: if you take 50 per cent of the increase in land revenue, you are taking 50 per cent of the increase in capital value?

A.—It is not so Rent does not rise in the same proportion as produce will rise.

The President *Q.*—It has been suggested that in cases where it is difficult to cover the interest on the capital cost of the irrigation work out of the increased land revenue or water-rate, it is perfectly fair to take also a proportion in the form of a terminable annuity of the increased capital value.

A—Certainly, it seems fair. But it is difficult to fit it in with our land revenue system

Sir Percy Thompson *Q*—You are in favour of reducing the limit of exemption in the case of income-tax to Rs 1,000?

A.—I was inclined to be. But since I wrote that I had a talk with two young income tax officers on the subject and they are very much against it. What they say is that people with incomes under Rs 2,000 practically never keep accounts and that it would cause a great deal of trouble and discontent if incomes between Rs. 1,000 and Rs 2,000 were assessed

Q—The figures that we got in the Central Provinces tend to show that if you reduce the exemption limit to Rs. 1,000 you will have double the number of assessees but the amount by which you would increase your yield of income-tax will be relatively small

A—I think it would be the same here also

Q—It is only a question of expediency whether it would be worth while to tax incomes between Rs. 1,000 and Rs 2,000?

A.—Yes.

The President. Q.—You are not in favour of assessing agricultural incomes to income-tax because it will be giving with one hand and taking away with the other?

A—Yes.

Q—Would it be practicable?

A.—Certainly it will be practicable in the case of large proprietors In the case of anybody whose income from rents is Rs 2,000 and over, it is very easy to assess

Q—Is it not desirable to introduce the factor of progression in cases of non-agricultural incomes?

A—In cases of non-agricultural incomes it is already introduced

Q—In taxation generally why not make the rich men pay more in proportion?

A—It is not done under land revenue Of course indirectly there is a certain amount of graduation, because we generally assess large and prosperous zamindars somewhat higher than the small and poor men.

Dr Paranjpye *Q*—Do you give remissions to prosperous zamindars in times of scarcity?

A—We give to the tenants and through them to the zamindars

Q—Do you give remissions to tenants?

A—We do it in certain proportions to the yield

Q—It is said in the Muzaffarnagar Settlement Report that the revenue incidence will approximately be in the ratios of 7, 4, 5 on non occupancy land, occupancy land and land of the same quality cultivated by the proprietors

A—I do not remember the proportions there given The land let to non-occupancy tenants is let for about double the occupancy rate

Q—This is the principle adopted in the incidence of land revenue. The land revenue falls most heavily on the direct cultivator, less heavily on the non-occupancy tenant and least on the occupancy tenant

A—I do not follow that. The land held by the proprietors themselves is assessed at occupancy rates and 25 per cent is deducted from the assets

Q—Supposing for the moment your proportion is 50 per cent, you take half of the output

A—Not of the output, half of the assets We calculate the assets on a fair occupancy rental.

The President *Q*—Where it is an occupancy rent, the landlord gets half and the Government gets 25 per cent

A—Government gets the other half

Q—Of the rent?

A—Yes The assets are calculated on the basis of occupancy rent and 25 per cent is deducted for proprietary cultivation

Q—Settlements are based entirely on rental value without any regard to the outturn of the land?

A—When a man cultivates his own land we assess him on what the land would fetch if let out to occupancy tenants and we allow 25 per cent off.

Q—The profits of cultivation are left entirely untouched

A—Rent is nothing like half of the produce We take probably ¼ of the gross produce

Q—Even when he cultivates himself you take the same rate?

A—In Muzaffarnagar where the zamindars cultivated the whole area there was either a small decrease in revenue or very small increase. It practically remained constant.

Sir Percy Thompson. *Q.*—Supposing you have three pieces of land: one cultivated by the occupancy tenant, one by the non-occupancy tenant and the third by the owner, the occupancy tenant will have to pay Rs. 50, the non occupancy tenant, Rs 75 and the cultivating owner Rs. 37½.

A—That is right. In the case of the non-occupancy tenant we make very great allowances on account of the insecurity of the rent and that would reduce it to 75.

The Maharajadhiraja Bahadur of Burdwan *Q.*—In that case you would keep it low?

A.—Yes, we make large allowances.

Q—Very often quite a large number of talukdars cultivate their own lands?

A—Oh, yes

The President *Q*—You see no harm in discouraging litigation by putting up the court-fees?

A—No.

Q—Have you got any special class of suits which ought to be taxed further?

A—I have not thought about it

Q—Would you impose a minimum for appeals to the highest tribunal, say, for instance, there should be no appeal to the High Court in respect of matters whose valuation is less than Rs 10?

A—That would be reasonable

Dr Paranjpye. *Q.*—At present suits about land of whatever value can be taken to the High Court

A—I really do not know. I have nothing to do with civil litigation I thought they had to be above a certain value. I certainly do not think that all suits should go to the High Court simply because they deal with land.

Q—Do you get a great many civil suit notices against Government?

A.—No, not very many

Q—The tendency is not to do that?

A—It is very exceptional in this province

Q—Do you know anything about the practice of filing suits for declaration? It is a very common practice to avoid paying *ad valorem* fees.

A.—I have not had experience of that

The Maharajadhiraja Bahadur of Burdwan *Q*—Do you think that the general idea in your province is that land revenue was originally the Government share of the produce of land and therefore a rent? Do you also think that whether it is a tax or rent is a matter of mere academic interest to the ordinary cultivators?

A—I am afraid I could not tell you how they look upon it.

Q—You say that rents are as high in rent free and permanently settled estates as in those which are temporarily settled In Bengal the experience is that in the permanently settled estates in some cases the assessment is high while in others it is low.

A—The rent does not depend upon the revenue Rent is what the zamindar can get out of the property Why should he get less because he has paid no revenue on it?

Q—I should have thought that the temporarily-settled zamindars would have rack rented

A—Why should he rack rent for a temporary period?

Q—For this reason that the settlement comes only once in 20 or 30 years

A—It does not as a matter of fact work out that way. We have certain permanently settled estates in Oudh and their rents are at the same level as those of the other talukdars' estates.

Q—Yesterday we were told by two representatives of the British Indian Association that over and above 44 per cent of land revenue they had to pay about 10 per cent by way of local cesses

A.—They all go to the District Board

Q—You collect it with the land revenue?

A—Yes, but they are paid to the District Board.

Q.—They realise some of them back

A.—They cannot get it back from the tenants.

Dr. Hyder *Q*—As a matter of fact, don't they recover from these tenants when they are competing against one another for the possession of a piece of land?

A—Not under that name

Q—Whatever the name, it comes from the pockets of the tenants?

A—The zamindars may take *nazaranas* in certain cases but they have nothing to do with the cess

Q—Is *nazarana* abolished under your new Tenancy Bill?

A—It is not absolutely made illegal even under the new Tenancy Bill.

The President *Q*—In the final Settlement Report of the Muzaffarnagar district, it is stated that "the revenue incidence on non-occupancy land, occupancy land and land of the same quality cultivated by proprietors will be approximately in the ratios of 7, 4, 3, because the first depends upon assets derived from competition rents fixed by the proprietor himself, the other upon assets based on the circle rates fixed by the Settlement Officer, while the last now receives for the first time the 25 per cent deduction from assets"

A—That is so, because the non-occupancy rents are so much higher than occupancy rents

Q—With reference to your answer to question No 99, do inequalities arise as between districts settled in different years owing to different ranges of prices? Is it, therefore, that you suggest that rents should be fixed?

A—Temporary inequalities could be put right at the next settlement.

Q—They are not actually put right because the settlements are always going on?

A—Yes

Q—Do you take into account the inequalities as between districts settled before the War and after the War?

A—The standard of assessment has also gone down

Q—Government is not getting its share of the large increase of prices that has come about

A—It is getting some share.

Q—Not the full share?

A—As a matter of fact, you will see in the report that the basis of price at which the Muzaffarnagar district settlement was made was 13 seers per rupee for wheat, the actual price now is 7 seers per rupee

Q—That was a good deal less than the price at the time?

A—It was leaving a margin

Q—A very big margin?

A—Very considerable margin

Q—When was this district settled?

A—In 1919 20.

Q—Can you give us any idea as to what the cost of collection of land revenue is?

A—It is rather difficult to say

Q—What proportion would you allow for the various supervising establishments?

A—Our chief expenditure under the head of "land revenue" is for land records, part of that should be debitable to land revenue and part to the necessity of keeping the accounts between zamindars and tenants and deciding their disputes

Q—Have you worked out any fraction which you would adopt for the cost of village staff, tahsil staff, land records, staff, Collectors, etc ?

A—'Land records' bears a very great proportion. I do not know how it is possible to separate the portion of land records which should be debitable to revenue and the portion which should be debitable to the general necessity of keeping up the records

Q—You can only take an arbitrary figure?

A—Yes

Q.—Is any of your village staff remunerated by a percentage or by the grant of free lands?

A—They are all paid. There used to be a *patwari* rate, but that was abolished a good many years ago Now the whole land records staff is paid by Government.

Q—That comes on both sides of the account?

A—No, only expenditure is shown

Q—Is expenditure out of land revenue included under the land revenue receipts?

A—No, it is not included in the land revenue receipts Our land revenue is over 5 crores of rupees and the cost of the land records staff is 66 lakhs of rupees

Q—Some provinces deduct the cost of the village staff from the collections before they are paid.

A—They do something of the kind in the irrigation budget, not in the land revenue budget

Q—Is your chowkidar staff debited to police?

A—Yes, to police entirely.

Q—You have no chowkidari cess?

A—No, we used to have that formerly, when it was paid by the zamindars.

Q—That disappeared with the patwari cess?

A—Not at the same time but about 20 years ago.

Q.—The two provinces which were exempted from these cesses were the United Provinces and Madras?

A—I do not know

Q.—But the chowkidari tax continues in the other provinces, apparently because it was never brought into account Do you know anything about the history of that?

A—No The chowkidari tax continued here later than the patwari cess We had a system by which the zamindar had to pay the chowkidar, in cash or in land if he liked.

Q—Has he now been exempted from all that?

A—Yes, he is not now responsible for the payment of the chowkidar; it is paid by Government. Under the old system, the zamindar paid the chowkidar; if the chowkidar complained that he was not being paid, an enquiry was instituted and then if necessary the cess was imposed

Q—Now Government leave the zamindar entirely free from this charge?

A.—Yes 7 per cent was local rate, 3 per cent patwari rate and 6 per cent chowkidari

Q—So you give him 9 per cent. of the land revenue?

A—But the local rate was raised from 7 to 10 per cent.

Q—You do not think it desirable to impose a tax on mutations?

A—We make no charge if the report is made in proper time Fines are imposed if reports are not made within a certain period of the transfer accruing

Q—Is there not great anxiety to get a satisfactory record of title in that way?

A.—We have to be constantly urging them to make reports and when a new settlement is coming on, we issue notices to the patwaris to the effect that all changes which have not hitherto been reported should be reported at once.

Q—Don't they greatly value the record of their names as registered holders?

A—I think the commercial classes do when they come into possession of a bit of land.

Q—It is only the owner, not the tenant, who has to go in for mutation?

A—There is no such system for tenant rights, it is only for zamindari rights

Dr. Hyder. *Q*—What about the occupancy rights? Is there no mutation in the case of occupancy rights?

A—No

The President *Q*—In the case of non-agricultural land, does not that escape taxation, both provincial and local?

A—Yes, outside the municipalities

Q—Even inside the municipalities it is very little taxed?

A—Yes, I think it probable I put in my reply only what the system is here as regards land taken up for building purposes

Q—You say it still continues to be assessed on agricultural value?

A—The zamindars wanted to exclude it from the definition of land in the new Tenancy Bill, we resisted it on the ground that it was the old custom and there were no sufficient reasons to make a change

Q—We were told that, if such land continues to be non-agricultural for another 30 years, at the next settlement it would be exempt from taxes altogether

A—No, according to the present system, it can continue to be taxed as its agricultural value at any succeeding settlement

Q—That is not what Mr Blunt told us

A—I have been through the papers recently and think that my statement is correct

Q—Even on *nazul* lands you do not take the full value?

A—*Nazul* is generally not assessed to revenue at all

Q—Would not the local body lease it?

A—It might be done in some cases, *nazul* is generally made over to the Municipal Board and the Municipal Board makes the best arrangement it can with the people who require the land. Sometimes they sell by auction, subject to a ground rent

Q—Are not the owners of town land and buildings a class who might well be taxed more than they are at present?

A—I think so probably

Q—In your answer to question No 104, you say that to compare the percentage borne by assessment to rents or annual value is the best method for comparing the incidence of land revenue in different provinces Can it be done in this province?

A—I think it could be estimated, because judging from the rents paid by non-occupancy tenants, we can estimate the economic value of land

Q—Would that involve putting a man on special duty?

Written memorandum of witnesses not examined orally.

The Upper India Chamber of Commerce, Cawnpore.

Q 2.—The estimates of the wealth of the country given in Annexure B indicate such a disparity in the figures as to be unreliable

Q 3.—It is considered that figures cannot be obtained in India corresponding to those available in other countries on which it would be possible to base estimates of national income

Q 4.—No suggestions are offered No reliable statistics would be available without special legislation compelling their compilation Even then enormously heavy expense would be involved, entirely incommensurate with results and there would be grave fear of such legislation offending religious and racial prejudices.

Q 5.—The taking of a census of production is opposed Any such census would soon be out of date and it would be necessary to commence another before the first was finished

Q. 7.—Estimates such as are referred to would have no value save for comparison with a previous estimate

Q 12.—The Chamber has no information as to revenue derivable from forests, other than sales of produce It appears, *prima facie*, that such revenue does not come within the definition of a tax

Q 13.—The endeavour should be to secure a commercial return, subject to the protection of private enterprise There would be no element of taxation in such a case but if a monopoly profit was sought there would be an element of taxation in the proposal

Q 14.—There does not appear to be any element of taxation in the revenue derived from any of the sources mentioned in this question

Q 18.—The reply is in the negative

Q. 19.—Taxes imposed solely for expenditure on the needs of particular localities should not be considered as affecting the general incidence of taxation

Q 20.—The reply to the first portion of the question is in the affirmative The second portion is avoided

Q 23.—The Chamber is in agreement with the statement quoted

Q 24.—A tax on entertainments would produce a general irritation entirely out of proportion to the small financial return from such a tax. A tax on railway tickets would be entirely objectionable

Q. 25.—The reply to the first portion is in the negative The second portion is avoided

Q 26.—Speaking generally the present scheme of taxation is equitable and in accordance with economic principles

Q. 27.—Yes

Q 28.—Yes

Q 29.—So far as is possible taxation should be indirect but direct taxation is not entirely avoidable.

Q 30.—All the forms of taxation suggested in this question are objectionable

Q. 31.—Of the 4 taxes mentioned, No 3, the *chaukidari* tax is acceptable, Nos. 2 and 4 are objectionable, No 1 is unknown to the Chamber

Q. 32.—It is not possible to answer this question in its present general form. Some of the taxes mentioned in the question are objectionable in more or less degree and all cannot, therefore, be treated alike

Q. 33.—The Chamber is opposed to an increase in the rate of income tax

Q. 34.—In general it is considered that the present scheme of gradnation of the income tax is satisfactory

Q. 36.—The proposal is not practicable.

Q. 37.—The Chamber is strongly of opinion that the Indian super tax on Companies should be abolished If, however, it is not, for reasons of revenue, possible to abolish this tax then individuals should be entitled to relief from super-tax on the same basis as they are from income tax paid by Companies on dividends

Q 40—The majority opinion in the Chamber is that the present limit of exemption is too high.

Q. 41—The introduction of a centralised and more efficient system of income-tax control has undoubtedly effected a very great improvement, but there is still much room for further improvement.

Q. 42—The proposal conveyed by this question is not practicable.

Q 43.—None of the methods indicated in this question is suitable to India

Q 44—No steps should be taken to discourage the issue of tax-free securities

Q 45—Bearer securities should not be tax-free and in order to ensure that the tax on such securities is obtained it should be deducted at source at the maximum rate

A special stamp duty would not help or prevent evasion It is, however, recognised that bearer certificates could be utilised for evading the maximum liability of taxation

Q 46—The reply is in the negative

Q 47—The Chamber would prefer an assessment, as in England, on a three years' average

Q 49—The Chamber is opposed to an excise duty on goods manufactured in the country, save in the case of certain articles of pure luxury, such as tobacco An excise duty on a natural product such as salt is defensible.

Q 50—A graduation such as is suggested is practicable if within reason. An *ad valorem* tax would effect this purpose.

Q. 51—Yes

Q 52—Yes

Q 53—The tax, as at present imposed, is low

Q 61—The Chamber does not anticipate the introduction of a policy of total prohibition, either generally or in particular

Q 63—Experience has shown, and particularly during the last few years, in these provinces, that attempts to reduce the consumption of reasonably wholesome intoxicants by raising the cost of such intoxicants have defeated themselves by leading to the extension of the illicit manufacture and sale of intoxicants and deleterious drugs.

Q 64.—For the reasons stated above, the policy followed in the United Provinces has failed.

Q 65—It is practicable to introduce a uniform rate

Q 66—Yes.

Q 67.—No.

Q 68.—No.

Q 78—Considered purely from a revenue point of view all articles imported should be taxed, but there should be special exemptions in favour of articles whose importation benefits the country, or which, on import, tend to improve the internal revenue producing capacity of the country.

Q 80—Yes, cotton, when exported to countries outside the British Empire.

Q 81—In some instances the system of tariff valuation in force when the questionnaire was framed was working satisfactorily but in others it was not, for example, in the case of sugar. In this instance, however, the system has since been changed

Q. 85.—While not actually prepared to criticise the system of appraisement the Chamber desires definitely to confirm the Resolution adopted at the last meeting of the Associated Chambers of Commerce on the motion of the Bengal Chamber, and which reads :—

"This Association recommends that in view of the heavy import duties which now prevail an immediate investigation should be made into the Customs Department with a view to the employment of a more highly qualified staff"

Q 87.—None of the taxes mentioned in Annexure K is approved.

Q. 89—Stamp fees or Court-fees on judicial proceedings should be such as fully to cover the charges enumerated in the question and should also be devised with a view to impose a check on unnecessary litigation.

Q. 90—No

Q 91—It is believed that evasion obtains to some extent but a remedy cannot be suggested.

Q 95—An entertainment tax is vexatious and the revenue it brings in is not commensurate with the objections to the tax.

Qs. 106 to 118—Local taxation in these provinces, in its municipal aspect, was fully enquired into by the Municipal Taxation Committee, United Provinces, in 1903 and 1909. It is suggested that the Report of that Committee might be considered now, with advantage, by the Indian Taxation Committee as conditions have not altered to any great extent.

Q 121—The Chamber agrees with the statement quoted

Qs. 122 and 123.—The Chamber prefers the levy of a tax on tobacco by imposing an acreage duty on cultivation

GIPD—L 22DO—30-10-25—800.

Q. 36.—The proposal is not practicable.

Q 37.—The Chamber is strongly of opinion that the Indian super tax on Companies should be abolished If, however, it is not, for reasons of revenue, possible to abolish this tax then individuals should be entitled to relief from super-tax on the same basis as they are from income tax paid by Companies on dividends

Q 40—The majority opinion in the Chamber is that the present limit of exemption is too high

Q 41—The introduction of a centralised and more efficient system of income-tax control has undoubtedly effected a very great improvement, but there is still much room for further improvement.

Q 42—The proposal conveyed by this question is not practicable

Q 43—None of the methods indicated in this question is suitable to India.

Q 44—No steps should be taken to discourage the issue of tax-free securities

Q 45—Bearer securities should not be tax-free and in order to ensure that the tax on such securities is obtained it should be deducted at source at the maximum rate

A special stamp duty would not help or prevent evasion It is, however, recognised that bearer certificates could be utilised for evading the maximum liability of taxation.

Q 46—The reply is in the negative

Q 47—The Chamber would prefer an assessment, as in England, on a three years' average

Q 49—The Chamber is opposed to an excise duty on goods manufactured in the country, save in the case of certain articles of pure luxury, such as tobacco An excise duty on a natural product such as salt is defensible.

Q 50—A graduation such as is suggested is practicable if within reason. An *ad valorem* tax would effect this purpose.

Q 51—Yes

Q 52—Yes.

Q 53—The tax, as at present imposed, is low

Q 61—The Chamber does not anticipate the introduction of a policy of total prohibition, either generally or in particular

Q 63—Experience has shown, and particularly during the last few years, in these provinces, that attempts to reduce the consumption of reasonably wholesome intoxicants by raising the cost of such intoxicants have defeated themselves by leading to the extension of the illicit manufacture and sale of intoxicants and deleterious drugs.

Q 64—For the reasons stated above, the policy followed in the United Provinces has failed

Q 65—It is practicable to introduce a uniform rate

Q 66—Yes

Q 67—No

Q 68—No

Q 78—Considered purely from a revenue point of view all articles imported should be taxed, but there should be special exemptions in favour of articles whose importation benefits the country, or which, on import, tend to improve the internal revenue producing capacity of the country.

Q 82—Yes, cotton, when exported to countries outside the British Empire.

Q 84—In some instances the system of tariff valuation in force when the questionnaire was framed was working satisfactorily but in others it was not, for example, in the case of sugar. In this instance, however, the system has since been changed